TENDER OFFER DISCLOSURE STATEMENT

CASHMERE VALLEY BANK

OFFER TO PURCHASE FOR CASH UP TO 340,000 SHARES OF ITS COMMON STOCK AT A PER SHARE PURCHASE PRICE OF $70.00

THE OFFER, PRORATION PERIOD AND WITHDRAWAL RIGHTS WILL EXPIRE AT 5:00 P.M., CASHMERE, WASHINGTON TIME ON MAY 13, 2021, UNLESS THE OFFER IS EXTENDED OR TERMINATED (SUCH TIME, AS IT MAY BE EXTENDED, THE "EXPIRATION TIME").

Cashmere Valley Bank, a Washington state chartered bank (the "Bank," "Cashmere," "we," "our" or "us"), is offering (the "Offer") to purchase for cash shares of its common stock, no par value ("Shares") at a purchase price of $70.00 per Share (the "Purchase Price") on the terms and subject to the conditions described in this Tender Offer Disclosure Statement (this "Disclosure Statement") and in the related letter of transmittal (the "Letter of Transmittal"). We are offering to purchase up to 340,000 Shares from shareholders of the Bank ("Shareholders") using cash on hand.

Only Shares validly tendered and not validly withdrawn will be eligible for purchase in the Offer. Because of the proration, all of the Shares tendered may not be purchased if more than 340,000 Shares are validly tendered and not validly withdrawn.

Assuming the Bank elects to purchase the 340,000 maximum number of Shares in the Offer and that the Offer is fully subscribed, the aggregate purchase price for the Shares would be $23.8 million.

The Offer is not conditioned upon any minimum number of Shares being tendered. The Offer is, however, subject to a number of other terms and conditions. **See page 21.**

Our Shares are traded on the OTCQX® Market (the "OTCQX") and trade under the symbol "CSHX." On March 31, 2021, the reported closing price of Shares on the OTCQX was $61.00 per Share. **You are urged to obtain current market quotations for our Shares before deciding whether to tender your Shares pursuant to the Offer.** **See page 23.**

Our Board of Directors has authorized the Offer, but none of the Board of Directors, the Bank or any of our or their respective affiliates has made, and they are not making, any recommendation to you as to whether you should tender or refrain from tendering your Shares pursuant to the Offer. We have not authorized any person to make any such recommendation. You must make your own decision as to whether to tender your Shares and, if so, how many Shares to tender. In doing so, you should read carefully the information in, or incorporated by reference in, this Offer, including the purpose and effects of the Offer. You are urged to discuss your decision with your own tax, legal and financial advisors and broker. **See page 47.**

Our directors and executive officers are entitled to participate in the Offer on the same basis as all other Shareholders. However, our directors and executive officers have informed us that they do not currently intend to tender their Shares in the Offer, and we are not aware of any affiliated entities that intend to tender their Shares in the Offer. As a result, the beneficial ownership of our directors, executive officers and affiliates will increase as a percentage of our outstanding Shares following the consummation of the Offer. **See page 45.**

Our directors, executive officers and affiliates, subject to applicable law and applicable policies of the Bank, may in the future sell their Shares from time to time in open market and other transactions at prices

that may be more or less favorable than the Purchase Price to be paid to our Shareholders pursuant to the Offer.

If the Offer is over-subscribed, we will purchase Shares on a pro rata basis from all Shareholders who validly tender Shares subject to the conditional tender provisions, provided that we may purchase fewer than such number of shares on a pro rata basis. See page 14.

None of the Federal Deposit Insurance Corporation ("FDIC"), the Securities and Exchange Commission (the "SEC") or any other regulatory authority has approved or disapproved of this transaction or passed upon the merits or fairness of such transaction or passed upon the adequacy or accuracy of the information contained in this Offer. Any representation to the contrary is a criminal offense.

The Bank is acting as its own dealer manager for the Offer. Questions, requests for assistance and requests for additional copies of Offer materials may be directed to the Bank at the telephone number and address set forth above.

117 Aplets Way, P.O. Box G
Cashmere, WA 98815
Phone: (509) 782-5495
Attn: Mike Lundstrom

Shareholders may also contact their broker, dealer, commercial bank, trust company or other nominee for assistance concerning the Offer.

Disclosure Statement dated April 13, 2021

IMPORTANT

If you want to tender all or any portion of your Shares, you must do one of the following prior to the Expiration Time:

- **if you hold Shares in "street name" (that is, through a broker, bank, trustee or other nominee), contact such broker, bank, trustee, or the nominee and have them tender your Shares for you;**
- **if you are an institution participating in The Depository Trust Company ("DTC") and you hold your Shares through DTC, tender your Shares according to the procedures for book-entry transfer described on page 18; or**
- **if you hold certificated or book-entry Shares in your own name, complete and sign a Letter of Transmittal according to its instructions and deliver it, together with any required signature guarantees, the certificates for your Shares, if applicable, and any other documents required by the Letter of Transmittal to Broadridge Corporate Issuer Solutions, Inc. at its address shown on the Letter of Transmittal.**

If you want to tender your Shares but your required documents cannot be delivered to Broadridge Corporate Issuer Solutions, Inc. prior to the Expiration Time, you may still tender your Shares if you comply with the guaranteed delivery procedures described on page 18.

Shareholders holding Shares in street name should be aware that their broker, dealer, commercial bank, trust company or other nominee may establish its own earlier deadline for participation in the Offer. Accordingly, Shareholders holding Shares in street name wishing to participate in the Offer should contact their broker, dealer, commercial bank, trust company or other nominee as soon as possible in order to determine the times by which such owner must take action in order to participate in the Offer.

To tender Shares validly, other than Shares held in street name, you must properly complete and duly execute the Letter of Transmittal.

We are not making the Offer to, and will not accept any tendered Shares from, Shareholders in any jurisdiction where it would be illegal to do so. However, we may, at our discretion, take any actions necessary for us to make the Offer to Shareholders in any such jurisdiction.

We have not authorized any person to make any recommendation on our behalf as to whether you should tender or refrain from tendering your Shares in the Offer. You should rely only on the information contained in this Offer and in the Letter of Transmittal. Subject to applicable law, our delivery of this Offer will not under any circumstances create any implication that the information contained in this Offer is correct as of any time other than the date of this Offer or that there have been no changes in the information included or incorporated by reference herein or in the affairs of the Bank since the date hereof. We have not authorized anyone to provide you information or to make any representation in connection with the Offer other than the information contained in this Offer or in the Letter of Transmittal. If anyone makes any recommendation or gives any such information or representation, you must not rely upon that recommendation, information or representation as having been authorized by us or any of our affiliates.

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EXHIBIT A – Letter of Transmittal
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SUMMARY TERM SHEET

We are providing this summary term sheet for your convenience. This summary term sheet highlights certain material information in this Offer, but you should understand that it does not describe all of the details of the Offer to the same extent described elsewhere in this Offer. To understand the Offer fully and for a more complete description of the terms of the Offer, you should read carefully this entire Disclosure Statement and the Letter of Transmittal. We have, in certain instances, included references to the sections of this Disclosure Statement where you will find a more complete description of the topics in this summary.

Who is offering to purchase the Shares?

The issuer of the Shares, Cashmere, is offering to purchase Shares pursuant to the Offer.

What will be the Purchase Price for the Shares and what will be the form of payment?

We are conducting the Offer by means of a fixed purchase price for the Shares of $70.00 per Share. Using cash on hand, we are offering to purchase up to 340,000 Shares. Promptly after the end of the day at 5:00 p.m., Cashmere, Washington time, on May 13, 2021, unless the Offer is extended or terminated (such time, as it may be extended, the “Expiration Time”), we will, on the terms and subject to the conditions of the Offer, determine the Shares validly tendered in the Offer and not validly withdrawn.

After we have determined the number of Shares validly tendered and not validly withdrawn, and on the terms and subject to the conditions of the Offer (including the proration provisions), we will pay the Purchase Price in cash, subject to applicable withholding and without interest, to all Shareholders whose Shares are accepted for payment pursuant to the Offer, provided that we may purchase fewer than such number of Shares on a pro rata basis. We will pay the Purchase Price promptly after expiration of the Offer, but do not expect to begin making such payments until at least three business days following the Expiration Time.

How many Shares of your common stock are you offering to purchase?

We are offering to purchase, at the Purchase Price, 340,000 Shares validly tendered in the Offer and not validly withdrawn. Assuming that the Offer is fully subscribed, the Bank will pay $70.00 for the Shares in this Offer. As of March 31, 2021, the Bank had 3,972,304 shares of Common Stock issued and outstanding of 10,000,000 total shares authorized. If the Bank repurchases all 340,000 shares of Common Stock that are authorized for repurchase pursuant to the Tender Offer, the Bank would have 3,632,304 shares of Common Stock outstanding. The 340,000 Shares represent approximately 8.6% of the total number of Shares issued and outstanding as of March 31, 2021.

The Offer is not conditioned upon any minimum number of Shares being tendered. The Offer is, however, subject to a number of other terms and conditions.

How do I tender my Shares?

To tender all or any portion of your Shares, you must do one of the following prior to the Expiration Time:

- if your Shares are registered in the name of a broker, dealer, commercial bank, trust company or other nominee, contact the nominee and have the nominee tender your Shares for you;
- if you are an institution participating in DTC and you hold your Shares through DTC, tender your Shares according to the procedures for book-entry transfer described on page 18; or
- if you hold certificated or book-entry Shares in your own name, complete and sign a Letter of Transmittal according to its instructions and deliver it, together with any required signature guarantees, the certificates for your Shares, if applicable, and any other documents required by the Letter of Transmittal to Broadridge Corporate Issuer Solutions, Inc. at its address shown on the Letter of Transmittal.

Shareholders holding their Shares in street name should be aware that their broker, dealer, commercial bank, trust company or other nominee may establish its own earlier deadline for participation in the Offer. Accordingly, such beneficial owners wishing to participate in the Offer should contact their broker, dealer, commercial bank, trust company or other nominee as soon as possible in order to determine the times by which such owner must take action in order to participate in the Offer.

If you want to tender your Shares, but your certificates for the Shares are not immediately available or cannot be delivered to Broadridge Corporate Issuer Solutions, Inc., you cannot comply with the procedure for book-entry transfer or you cannot deliver the other required documents to Broadridge Corporate Issuer Solutions, Inc. by the Expiration Time, you may still tender your Shares if you comply with the guaranteed delivery procedure described on page 18.

May I tender only a portion of the Shares that I hold?

Yes. You are not required to tender all of the Shares that you own to participate in the Offer.

How will the Bank pay for the Shares?

We intend to fund any purchase of Shares pursuant to the Offer, including the related fees and expenses, from cash on hand. See page 24.

Assuming the Bank elects to purchase the 340,000 maximum number of Shares in the Offer and the Offer is fully subscribed, and the Shares are purchased at the Purchase Price of $70.00, we expect the aggregate cost of the Offer, including all fees and expenses relating to the Offer, to be approximately $23.8 million.

How long do I have to tender Shares?

You may tender your Shares until the Offer expires at the Expiration Time. The Offer will expire at 5:00 p.m., Cashmere, Washington time, on May 13, 2021, unless we extend or terminate the Offer. See page 12.

If a broker, dealer, commercial bank, trust company or other nominee holds your Shares, it is likely that they will have an earlier deadline for you to act to instruct them to accept the Offer on your behalf. We urge you to immediately contact your broker, dealer, commercial bank, trust company or other nominee to find out their deadline. See page 16.

May the Offer be extended, amended or terminated and, if so, under what circumstances?

We may extend the Expiration Time for the Offer in our sole discretion at any time, subject to applicable laws. We may, however, decide not to extend the Expiration Time for the Offer. If we were to extend the Expiration Time for the Offer, we cannot indicate, at this time, the length of any extension that we may provide. In any event, if we extend the Expiration Time for the Offer, we will delay the acceptance of any Shares that have been tendered, and any Shares that have been previously tendered may be withdrawn up until the Expiration Time, as so extended. We may also amend or terminate the Offer in our sole discretion.

How will I be notified if the Offer is extended, amended or terminated?

If the Expiration Time for the Offer is extended, we will issue a press release announcing the extension and the new Expiration Time by no later than 9:00 a.m., Cashmere, Washington time, on the first business day after the last previously scheduled Expiration Time. We also will announce any amendment to or termination of the Offer by making a public announcement of such amendment.

What is the purpose of the Offer?

Our Board of Directors approved the Offer with the goal of reinvesting in the Bank. In particular, by repurchasing the Shares, the Bank believes that it can provide improved performance with respect to the Bank's Shareholders while providing Shareholders who desire to sell their shares with additional liquidity.

If we complete the Offer, Shareholders who do not participate in the Offer, including our directors, executive officers and affiliates, and do not otherwise sell their Shares will increase their relative percentage equity ownership interest in the Bank. After the completion of the Offer, purchases we make may be on the same terms as, or on terms more or less favorable to Shareholders than, the terms of the Offer. Any possible future purchases by us will depend on many factors, including the trading price of the Shares, the results of the Offer, our business and financial condition and general economic and market conditions.

Has the Bank or its Board of Directors adopted a position on the Offer?

Our Board of Directors has authorized the Offer, but none of the Board of Directors, the Bank or any of our affiliates have made, nor are they making, any recommendation to you as to whether you should tender or refrain from tendering your Shares pursuant to the Offer. We have not authorized any person to make any such recommendation. You must make your own decision as to whether to tender your Shares and, if so, how many Shares to tender. In doing so, you should carefully read the information in, or incorporated by reference in, this Disclosure Statement and in the Letter of Transmittal, including the purpose and effects of the Offer. You are urged to discuss your decision with your own tax, legal and financial advisors and broker. See page 47.

Does the Bank's Board of Directors or executive officers or affiliates intend to tender their Shares in the Offer?

Members of our Board of Directors and officers beneficially own 63,546 Shares, or 1.60% of our outstanding Shares. Our directors and executive officers have informed us that they do not currently intend to tender Shares beneficially owned by them into the Offer. Purchases of Shares pursuant to the Offer will increase the percentage equity ownership of non-tendering Shareholders, including directors, executive officers and affiliates who do not sell Shares in the Offer. Certain of our directors, executive officers and their affiliates have sold Shares in the past and in the future will sell or otherwise dispose of Shares, subject to our share ownership and stock trading policies applicable to directors and executive officers.

What are the conditions to the Offer?

Our obligation to accept and purchase and pay for Shares tendered in the Offer depends upon a number of conditions that must be satisfied or waived prior to the Expiration Time, and we may terminate, amend or extend the Offer at any time in our sole and absolute discretion whether or not any or all these conditions have been satisfied. We will not be required to accept for payment, purchase or pay for any Shares tendered, and may postpone the acceptance for payment of, or the purchase of or the payment for, Shares tendered, if at any time prior to the Expiration Time, any of the following events or circumstances shall have occurred (or shall have been reasonably determined by us to have occurred):

- there shall have been instituted, or there shall be pending, or we shall have received notice of any action, suit, proceeding or application by any government or governmental, regulatory or administrative agency, authority or tribunal or by any other person, domestic, foreign or supranational, before any court, authority, agency, other tribunal or arbitrator or arbitration panel that directly or indirectly:
    - challenges or seeks to challenge, restrain, prohibit, delay or otherwise affect the making of the Offer, the acquisition by us of some or all of the Shares pursuant to the Offer or otherwise relates in any manner to the Offer or seeks to obtain material damages in respect of the Offer;
    - seeks to make the purchase of, or payment for, some or all of the Shares pursuant to the Offer illegal; or
    - may result in a delay in our ability to accept for payment or pay for some or all of the Shares;
- our acceptance for payment, purchase or payment for any Shares tendered in the Offer shall violate or conflict with, or otherwise be contrary to, any applicable law, statute, rule, regulation, decree, injunction or order;

- any action shall have been taken or any statute, rule, regulation, judgment, decree, injunction or order (preliminary, permanent or otherwise) shall have been proposed, sought, enacted, entered, promulgated, enforced or deemed to be applicable to the Offer or us or any of our subsidiaries by any court, government or governmental agency or other regulatory or administrative authority or body, domestic foreign or supranational, which:
    - indicates that any additional approval or other action of any such court, government, agency or authority may be required in connection with the Offer or the purchase of Shares thereunder; or
    - is reasonably likely to make the purchase of, or payment for, some or all of the Shares pursuant to the Offer illegal or to prohibit, restrict or delay consummation of the Offer;
- there shall have occurred any of the following:
    - any decrease of more than 10% in the market price in the Dow Jones Industrial Average, the New York Stock Exchange Index, the New York Stock Exchange Composite Index, the NASDAQ Composite Index or the Standard and Poor's 500 Composite Index measured from the close of trading on the date of this Disclosure Statement;
    - any general suspension of trading in securities on any United States national securities exchange or in the over-the-counter market, the declaration of a banking moratorium or any suspension of payments in respect of banks in the United States, whether or not mandatory, or any limitation, whether or not mandatory, by any governmental, regulatory or administrative agency or authority on, or any event that is likely, in our reasonable judgment, to materially adversely affect, the extension of credit by banks or other lending institutions in the United States;
    - the commencement or escalation, on or after the date of this Disclosure Statement, of war, armed hostilities or other international or national calamity, including, but not limited to, an act of terrorism, directly or indirectly involving the United States;
    - any change, condition, event or development, or any condition, event or development involving a prospective change, occurs, is discovered or is threatened relating to (1) general political, market, economic, financial or industry conditions in the United States or (2) our business, general affairs, management, financial position, shareholders' equity, income, results of operations, properties, assets, liabilities, condition (financial or otherwise), income, operations, licenses, franchises, permits or prospects, which in our reasonable judgment is or may be materially adverse to us or otherwise makes it inadvisable for us to proceed with the Offer; or
    - in the case of any of the preceding three bullets existing at the time of the announcement of the Offer, as applicable, a material acceleration or worsening thereof;
- a tender or exchange offer for any or all of our outstanding Shares (other than the Offer), or any merger, amalgamation, acquisition, business combination or other similar transaction with or involving us, shall have been proposed, announced or made by any third person or entity or shall have been publicly disclosed by a third person, or we shall have entered into a definitive agreement or an agreement in principle with any person with respect to a merger, amalgamation, acquisition, business combination or other similar transaction involving us;
- we shall have learned after the date of this Disclosure Statement that any entity, "group" (as that term is used in Section 13(d)(3) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) or person (1) has acquired or proposes to acquire beneficial ownership of more than 5% of our outstanding Shares, whether through the acquisition of stock, the formation of a group, the grant of any option or right (options for and other rights to acquire Shares of our common stock that are acquired or proposed to be acquired being deemed to be immediately exercisable or convertible for purposes of this clause) or otherwise (other than a Shareholder who, as of the date of this Disclosure Statement, already owns more than 5% of the Shares (an "Existing 5+% Holder"), or (2) who is an Existing 5+%

Holder and who acquired or proposes to acquire, whether through the acquisition of Shares, the formation of a group, the grant of any option or right (options for and other rights to acquire Shares of our common stock that are acquired or proposed to be acquired being deemed to be immediately exercisable or convertible for purposes of this clause) or otherwise (other than by virtue of the consummation of the Offer), beneficial ownership of an additional 1% or more of our outstanding Shares;

- the consummation of the Offer and the purchase of Shares will cause the Shares to cease to be quoted on the OTCQX;
- there shall have occurred any limitation, whether or not mandatory, by any governmental, regulatory or administrative agency or authority on, or any event that could reasonably be expected to materially affect, the extension of credit by banks or other lending institutions in the United States; or
- any approval, permit, authorization, favorable review or consent or waiver of or filing with any domestic or foreign governmental entity or other authority or any third-party consent or notice, required to be obtained or made in connection with the Offer shall not have been obtained or made on terms and conditions satisfactory to us in our reasonable judgment.

Each of the conditions referred to above is for our sole benefit and may be asserted or waived by us, in whole or in part, prior to the Expiration Time. Any determination by us concerning the fulfillment or non-fulfillment of the conditions described above will be final and binding on all parties, except as finally determined in a subsequent judicial proceeding if our determinations are challenged by Shareholders.

How will the Offer affect the number of our Shares outstanding?

As of March 31, 2021, the Bank had 3,972,304 shares of Common Stock issued and outstanding of 10,000,000 total shares authorized. If the Bank repurchases all 340,000 shares of Common Stock that are authorized for repurchase pursuant to the Offer, the Bank would have 3,632,304 shares of Common Stock outstanding. The 340,000 Shares represents approximately 8.6% of the total number of Shares issued and outstanding as of March 31, 2021.

The actual number of Shares outstanding immediately following completion of the Offer will depend on the number of Shares tendered and purchased in the Offer.

If any of our Shareholders who holds Shares in its own name as holder of record or who is a "registered holder" as a participant in the DTC's system whose name appears on a security position listing tenders its Shares in full and that tender is accepted in full, then the number of our record holders would be reduced.

Shareholders who do not have their Shares purchased in the Offer will realize an increase in their relative ownership interest in the Bank with respect to these Shares following the purchase of Shares pursuant to the Offer.

May I change my mind after I have tendered Shares in the Offer, but before the Expiration Time?

Yes. You may withdraw any Shares you have tendered at any time before the Expiration Time. If we have not accepted for payment the Shares you have tendered to us by 12:00 midnight, Cashmere, Washington time, at the end of the day on May 13, 2021 (the 30th day following the commencement of the Offer), you may also withdraw your Shares at that time.

If you hold your Shares in street name through a broker, dealer, commercial bank, trust company or other nominee you must follow that person's procedures described in instructions that you will receive, which may include an earlier deadline for notification of your desire to withdraw your Shares.

How do I withdraw Shares I previously tendered?

You must deliver on a timely basis a written notice of your withdrawal to Broadridge Corporate Issuer Solutions, Inc. at the addresses set forth in the Letter of Transmittal. Your notice of withdrawal must specify your name, the number of Shares to be withdrawn and the name of the registered holder of such Shares. Additional requirements will apply if the certificates for Shares to be withdrawn have been delivered to Broadridge Corporate Issuer Solutions, Inc. or if your Shares have been tendered under the procedure for book-entry transfer. See page 19.

In what order will the Bank purchase the tendered Shares?

If the conditions to the Offer have been satisfied or waived and fewer than 340,000 Shares are validly tendered and not validly withdrawn prior to the Expiration Time, we may buy all Shares validly tendered and not validly withdrawn, or we may buy fewer than such number of Shares on a pro rata basis.

If the conditions to the Offer have been satisfied or waived and more than 340,000 Shares have been validly tendered and not validly withdrawn prior to the Expiration Time, we may purchase Shares on a pro rata basis from all other Shareholders who validly tender Shares and do not validly withdraw them before the expiration of the Offer, provided that we may elect to purchase fewer than 340,000 Shares on a pro rata basis.

What will happen if I do not tender my Shares?

Shareholders who do not participate in the Offer and do not otherwise sell their Shares will retain their Shares and, if the Bank completes the Offer, their relative ownership interest in the Bank will increase. See page 15.

Do I need regulatory approval to participate in the Offer?

Although the Bank is highly regulated, Shareholders are not required to obtain regulatory approval to sell Shares to us pursuant to the Offer. However, the laws of various states require regulatory approvals for acquiring or owning more than certain percentage thresholds of our Shares. See page 16. Based on Share ownership information available to us, we believe that our purchase of Shares pursuant to the Offer could cause at least one Shareholder to exceed an applicable regulatory ownership threshold. Shareholders with substantial shareholdings in us are encouraged to consult their own legal counsel or regulatory authorities with respect to regulatory matters.

When and how will the Bank pay for my tendered Shares that are accepted for purchase pursuant to the Offer?

Promptly after the Expiration Time, we will pay the Purchase Price in cash, less any applicable withholding taxes and without interest, for the Shares we purchase. The Bank will then transmit to you the payment for all of your Shares accepted for payment pursuant to the Offer. See page 14.

Does the Bank intend to repurchase any Shares other than pursuant to the Offer during or after the Offer?

After the Expiration Time, we may make stock repurchases from time to time on the open market and in private transactions. Whether we make additional repurchases will depend on many factors, including, without limitation, the number of Shares, if any, that we purchase in this Offer, our business and financial performance and situation, the business and market conditions at the time, including the price of the Shares, our cash requirements and such other factors as we may consider relevant. Any of these repurchases may be on the same terms or on terms that are more or less favorable to the selling Shareholders in those transactions than the terms of the Offer.

What is the recent market price for Shares?

On March 31, 2021, the reported closing price of our Shares on the OTCQX was $61.00 per Share. **You are urged to obtain current market quotations for our Shares before deciding whether, and at what price or prices, to tender your Shares pursuant to the Offer.** **See page 23.** **You are urged to seek to obtain current market information for our Shares or advice from your financial advisor before deciding whether to tender your Shares pursuant to the Offer and, if so, how many Shares to tender.**

Will I have to pay brokerage fees and commissions if I tender my Shares?

If you hold your Shares in street name through a broker, dealer, commercial bank, trust company or other nominee and that person tenders Shares on your behalf, that person may charge you a fee or commission for doing so. We urge you to consult your broker, dealer, commercial bank, trust company or other nominee to determine whether any such charges will apply. See page 16.

What is the accounting treatment of the Offer?

The accounting for the purchase of Shares pursuant to the Offer will result in a reduction of our Shareholders' equity in an amount equal to the aggregate purchase price of the Shares we purchase and a corresponding reduction in our cash and cash equivalents.

What are the United States federal income tax consequences if I tender my Shares?

Your receipt of cash for your tendered Shares will be treated as either consideration received in a sale or exchange or a distribution depending on your circumstances. See page 47. **Each Shareholder is advised to consult its own tax advisor to determine the United States federal, state, local, foreign and other tax consequences to it of the Offer.**

Will I have to pay a stock transfer tax if I tender my Shares?

If you instruct the Bank in the Letter of Transmittal to make the payment for the tendered Shares to the registered holder, you will not incur any stock transfer tax. See page 53.

Whom do I contact if I have questions about the Offer?

For additional information or assistance, you may contact the Bank, at the telephone number and address set forth on page ii of this Disclosure Statement. You may request additional copies of this Disclosure Statement and the Letter of Transmittal from the Bank. Shareholders holding their shares in street name may also contact their broker, dealer, commercial bank, trust company or other nominee for assistance concerning the Offer.

RISK FACTORS RELATED TO THE OFFER

Our Board of Directors makes no recommendation with regard to whether you should accept the Offer.

Our Board of Directors has authorized the Offer, but none of the Board of Directors, the Bank or any of their respective affiliates has made, and they are not making, any recommendation to you as to whether you should tender or refrain from tendering your Shares pursuant to the Offer. We have not authorized any person to make any such recommendation. You must make your own decision as to whether to tender your Shares and, if so, how many Shares to tender and at what price. In doing so, you should carefully read the information in, or incorporated by reference in, this Offer, including the purpose and effects of the Offer. We do not take a position as to whether you ought to participate in the Offer.

The Shares may be acquired by the Bank in the future other than through the Offer.

From time to time in the future, to the extent permitted by applicable law, the Bank may acquire Shares that remain outstanding, whether or not the Offer is consummated, through redemptions or through tender offers, exchange offers, open market purchases or otherwise, upon such terms and at such prices as it may determine, which may be more or less than the Purchase Price to be paid pursuant to the Offer and could be for cash or other consideration. There can be no assurance as to which, if any, of these alternatives (or combinations thereof) the Bank may pursue.

If the Offer is successful the trading market for the Shares may be more limited and the market price for the Shares increase or decrease.

Depending on the number of Shares that are purchased in the Offer, the trading market for the Shares that remain outstanding after the Offer may be more limited. A reduced trading volume for the Shares may increase or decrease the price and increase the volatility of the trading price of the Shares that remain outstanding following the completion of the Offer. In addition, the purchase by the Bank of Shares pursuant to the Offer is likely to reduce the number of our Shareholders.

The Offer could have adverse tax consequences with respect to Shareholders.

We have not obtained and do not intend to obtain a ruling from the IRS regarding the U.S. federal income tax consequences of the Offer. An exchange of Shares for cash pursuant to the Offer will be a taxable transaction for U.S. federal income tax purposes. A U.S. Shareholder that participates in the Offer will, depending on such holder's particular circumstances, be treated as either recognizing gain or loss from the disposition of Shares or as receiving a distribution from the Bank with respect to its stock. You should consult with your own tax advisor with regard to the possibility of any federal, state, local or other tax consequences of the Offer. See "Material U.S. Federal Income Tax Consequences."

As a result of the Offer it is likely that management will have increased voting control over the Bank.

Our directors and executive officers are entitled to participate in the Offer on the same basis as all other Shareholders. However, our directors and executive officers have informed us that they do not currently intend to tender their Shares in the Offer, and we are not aware of any affiliated entities that intend to tender their Shares in the Offer. As a result, the beneficial ownership of our directors, executive officers and affiliates will increase as a percentage of our outstanding Shares following the consummation of the Offer.

The Bank will use a significant amount of cash to fund the Offer.

The total amount of funds required by the Bank to consummate the transaction and pay related fees and expenses, assuming the Bank elects to purchase the maximum 340,000 Shares in the Offer and it is fully subscribed, is estimated to be approximately $23.8 million. The Bank intends to pay these funds from existing cash and equivalents. The Bank had approximately $135,725,000 of cash and equivalents as of December 31, 2020. If the Bank needs to use a significant portion of its cash and equivalents for the Offer, it may be forced to reduce or eliminate future discretionary cash distributions to Shareholders.

The Bank has not obtained a fairness opinion with respect to the Offer.

The Bank has not obtained a fairness opinion from an investment banking firm or performed any valuations in calculating the Purchase Price for the Shares.

There can be no Assurance that the Bank will purchase all Shares in the Offer.

Under certain circumstances described herein, if the Offer is over-subscribed or in certain situations if we elect to repurchase fewer than 340,000 Shares, we will prorate the Shares purchased pursuant to the Offer. A Shareholder may tender Shares subject to the condition that all or a specified minimum number of the Shareholder's Shares tendered must be purchased if any Shares tendered are purchased. Any Shareholder desiring to make a conditional tender must so indicate in the section entitled "Conditional Tender" in the Letter of Transmittal, and, if applicable, in the Notice of Guaranteed Delivery. Further, if the effect of our preliminary proration would be to reduce the number of Shares to be purchased from any tendering Shareholder below the minimum number specified by that Shareholder, the Shares conditionally tendered will automatically be regarded as withdrawn (except as otherwise provided under "Conditional Tender of Shares") and such Shares will not be purchased by the Bank. Failure to make a conditional tender may result in only a portion of the tendered Shares being purchased by the Bank. Also, it is the tendering Shareholder's responsibility to calculate the minimum number of Shares that must be purchased from the Shareholder in order for the Shareholder to qualify for sale or exchange (rather than distribution) treatment for U.S. federal income tax purposes. **Shareholders are urged to consult with their own tax advisors. No assurances can be provided that a conditional tender will achieve any particular U.S. federal income tax result for any Shareholder tendering Shares.**

The Bank has not engaged a depositary.

The Bank has not engaged a depositary in connection with the Offer. Accordingly, the Bank will hold all Shares tendered and not withdrawn by tendering Shareholders and funds for paying the Purchase Price will not be deposited with a third party for the benefit of tendering Shareholders. Because the Bank will continue to hold such funds until payment, tendering Shareholders will be subject to the risk that events which adversely affect the Bank's financial viability, could result in tendering Shareholders not receiving payment for the Shares tendered pursuant to the Offer.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Offer and documents delivered in connection with it contain forward-looking statements that are subject to risks and uncertainties. These forward-looking statements include information about: (a) our possible or assumed future results of operations or performance, and (b) our future plans, strategies, expectations, estimates, judgments and beliefs. When we use any of the words “believes,” “expects,” “intends,” “plans”, “anticipates,” “estimates”, or future or conditional verbs such as “will,” “would,” “should,” “could” or “may”, or similar expressions, we are making forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Exchange Act. These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. These statements are based on our management’s existing expectations, which in turn are based on information that is currently available to them and on the current economic, regulatory and competitive environment, including factors such as general economic and business conditions in those areas in which we operate, demographic changes, competition, fluctuations in interest rates, changes in business strategy or development plans, changes in governmental regulation, credit quality, the availability of capital to fund the expansion of our business and other risk factors referenced in this Offer. Many possible events or factors, including changes from current conditions in the factors mentioned above, could affect our future financial results and performance and could cause those results or performance to differ materially from those expressed in our forward-looking statements.

The factors set forth under “Risk Factors” and other cautionary statements made in this Disclosure Statement should be read and understood as being applicable to all related forward-looking statements wherever they appear in this Disclosure Statement.

The novel coronavirus disease, or COVID-19, pandemic is adversely affecting us, our customers, counterparties, employees, and third-party service providers, and the ultimate extent of the impacts on our business, financial position, results of operations, liquidity, and prospects remains uncertain. Deterioration in general business and economic conditions, including further increases in unemployment rates, or turbulence in domestic or global financial markets could adversely affect our revenues and the values of our assets and liabilities, reduce the availability of funding, lead to a tightening of credit, and further increase stock price volatility. Likewise, changes to statutes, regulations, or regulatory policies or practices as a result of, or in response to COVID-19, could affect us in substantial and unpredictable ways. In addition to the factors listed above and the risks discussed in the “Risk Factors” section of this Disclosure Statement, factors that could have a material adverse effect on our operations and future prospects include, but are not limited to, the following:

- The successful implementation of our community banking strategy.
- Local, regional, national and international economic conditions and the impact they may have on us and our customers, and our assessment of that impact on our estimates including, but not limited to the allowance for loan losses.
- The effects of and changes in trade, monetary and fiscal policies and laws, including the interest rate policies of the Federal Open Market Committee of the Federal Reserve.
- Changes imposed by regulatory agencies to increase our capital to a level greater than the level required for well-capitalized financial institutions, or the effect of other potential future regulatory actions against the Bank, whether through informal understandings or formal agreements entered into with regulatory agencies.
- The failure to maintain capital above the level required to be “well capitalized” under the regulatory capital adequacy guidelines, the availability of capital from private or government sources, or the failure to raise additional capital as needed.
- Changes in the level of non-performing assets and charge-offs and other credit quality measures, and their impact on the adequacy of our allowance for loan losses and provision for loan losses.
- Changes in sources and uses of funds, including loans, deposits and borrowings, including the ability to retain and grow core deposits, to purchase brokered deposits and maintain unsecured federal funds

lines with correspondent banks and secured lines of credits with the Federal Home Loan Bank System and other sources.
- The effects of inflation as well as interest rate, securities market and monetary supply fluctuations.
- Political instability, acts of war or terrorism and natural disasters.
- The timely development and acceptance of new products and services and perceived overall value of these products and services by customers.
- Changes in consumer spending, borrowings and savings habits.
- Competition for loans and deposits and failure to attract or retain loans and deposits.
- Changes in the financial performance or condition of borrowers and the ability of borrowers to perform under the terms of their loans and other terms of credit agreements.
- Changes to technology and information systems.
- Acquisitions and greater than expected costs or difficulties related to the integration of acquired businesses or other assets.
- Our ability to increase market share and control expenses.
- Changes in the competitive environment among banks and other financial service providers.
- Changes in business strategy or development plans.
- Changes in the securities markets.
- The effect of changes in accounting policies and practices, as may be adopted by the regulatory agencies, as well as the Financial Accounting Standards Board and other accounting standard setters.
- Changes in our compensation and benefit plans.
- Our ability to hire and retain qualified executive officers.
- The effects of being the subject of a fraudulent transaction or a series of fraudulent transactions.
- The costs and effects of changes in laws and regulations and of other legal and regulatory developments, including, but not limited to, increases in Federal Deposit Insurance Corporation insurance premiums, the resolution of legal proceedings or regulatory or other governmental inquiries, and the results of regulatory examinations or reviews.
- Our ability to manage the risks involved in the foregoing items.

These risks and uncertainties should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements. The forward-looking statements included in this Disclosure Statement are made only as of the date of this Offer. We disclaim any obligation to update any such factors or to disclose the results of any revisions to any of the forward-looking statements contained herein to reflect future events or developments.

Any forward-looking earnings estimates included in this Disclosure Statement have not been examined or compiled by our independent accountants, nor have our independent accountants applied any procedures to our estimates. Accordingly, our accountants do not express an opinion or any other form of assurance on them.

INTRODUCTION

Cashmere Valley Bank (the “Bank”, “Cashmere”, “we”, “our” or “us”) hereby offers (the “Offer” to purchase for cash up to 340,000 shares of its common stock, no par value per share (“Shares”) upon the terms and subject to the conditions set forth in this Disclosure Statement and the related Letter of Transmittal. We are offering to purchase the Shares at a price of $70.00 per share, (the “Purchase Price”) less any applicable withholding taxes and without interest.

Using cash on hand, we are offering to purchase up to 340,000 Shares. Promptly after the end of the day at 5:00 p.m., Cashmere, Washington time, on May 13, 2021, unless the Offer is extended or terminated (such time, as it may be extended, the “Expiration Time”), we will, on the terms and subject to the conditions of the Offer, pay for Shares validly tendered in the Offer and not validly withdrawn, provided that we may elect not to purchase all such Shares.

Upon the terms and subject to the conditions of this Disclosure Statement, including the provisions relating to proration, the Bank will purchase up to 340,000 Shares properly tendered and not properly withdrawn. Shares not purchased in the tender offer will be returned to the tendering Shareholders at our expense promptly after the expiration of the tender offer.

The Offer will expire at the Expiration Time, unless extended or withdrawn. We may, in our sole discretion, extend the period of time in which the Offer will remain open or withdraw the Offer.

In determining to proceed with the Offer, our Board of Directors considered a broad range of factors, including consequences under the Internal Revenue Code of 1986, as amended (the “Code”), our financial structure, financial condition and dividend policy, operations, resources and prospects, the current and historical market prices of our shares, the likelihood that repurchasing Shares would be accretive to our earnings, the likely effect that repurchasing Shares would have on our capital ratios, alternative methods of repurchasing our Shares other than pursuant to a tender offer and the attractiveness of the Offer to our Shareholders. Our Board of Directors also considered risks and uncertainties, including the potential for positive and negative developments relating to our business and the securities markets generally.

Based on this review, our Board of Directors determined that it is in the best interests of the Bank to repurchase Shares and that at this time the Offer described in this Disclosure Statement is a prudent and effective way to do so and to provide value to our Shareholders.

In particular, our Board of Directors believes the Offer set forth in this Disclosure Statement is a mechanism that will provide all Shareholders with the opportunity to tender all or a portion of their Shares. Conversely, the Offer also affords Shareholders the option not to participate and thereby, to increase their relative percentage interest in the Bank and our future results. In addition, our Board of Directors believes the Offer provides Shareholders with an opportunity to obtain liquidity with respect to all or a portion of their Shares, without potential disruption to the Share price and the usual transaction costs inherent in open market purchases and sales.

The Offer is not conditioned upon any minimum number of Shares being tendered. The Offer is, however, subject to certain other conditions. See page 21.

Our Board of Directors has authorized the Offer, but none of the Board of Directors, the Bank or any of our or their respective affiliates has made, and they are not making, any recommendation to you as to whether you should tender or refrain from tendering your Shares pursuant to the Offer. We have not authorized any person to make any such recommendation. You must make your own decision as to whether to tender your Shares and, if so, how many Shares to tender. In doing so, you should carefully read the information in this Offer, including the purpose and effects of the Offer. You are urged to discuss your decision with your own tax, legal and financial advisors and/or broker. See page 47.

If the terms and conditions of the Offer have been satisfied or waived and 340,000 Shares or less are properly tendered and not properly withdrawn prior to the Expiration Date, we may buy all Shares properly tendered and not properly withdrawn, or we may buy fewer than such number of Shares on a pro rata basis.

If the conditions to the tender offer have been satisfied or waived and 340,000 or more Shares have been properly tendered and not properly withdrawn prior to the Expiration Date, we may buy Shares on a pro rata basis from all other Shareholders who properly tender shares at or below the Purchase Price, other than stockholders who tender conditionally and whose conditions are not satisfied, provided that we may also purchase fewer than 340,000 shares on a pro rata basis.

We will pay the Purchase Price promptly after expiration of the Offer, but do not expect to begin making such payments until at least three business days following the Expiration Time.

If you hold your Shares in street name through a broker, dealer, commercial bank, trust company or other nominee and that person tenders Shares on your behalf, that person may charge you a fee or commission for doing so. We urge you to consult your broker, dealer, commercial bank, trust company or other nominee to determine whether any such charges will apply. Also, any tendering stockholder or other payee who fails to complete, sign and return to Broadridge Corporate Issuer Solutions, Inc. the Form W-9 included with the Letter of Transmittal (or such other Internal Revenue Service ("IRS") form as may be applicable) may be subject to U.S. federal income tax backup withholding on the gross proceeds paid to the holder or other payee pursuant to the Offer, unless such holder establishes that such holder is within the class of persons that is exempt from backup withholding.

As of March 31, 2021, the Bank had 3,972,304 shares of Common Stock issued and outstanding of 10,000,000 total shares authorized. If the Bank repurchases all 340,000 shares of Common Stock that are authorized for repurchase pursuant to the Tender Offer, the Bank would have 3,632,304 shares of Common Stock outstanding. The 340,000 Shares represents approximately 8.6% of the total number of Shares issued and outstanding as of March 31, 2021. On March 31, 2021, the reported closing price of our Shares on the OTCQX was $61.00 per Share. **You are urged to obtain current market quotations for our Shares before deciding whether, and at what price or prices, to tender your Shares pursuant to the Offer.** **See page 23.** **You are urged to seek to obtain current market information for our Shares or advice from your financial advisor before deciding whether to tender your Shares pursuant to the Offer and, if so, how many Shares to tender.**

THE OFFER

Number of Shares; Purchase Price; Proration

General. Promptly following the Expiration Time, we will, on the terms and subject to the conditions of the Offer, purchase up to 340,000 Shares at a purchase price of $70.00.

We will pay the Purchase Price in cash, subject to applicable withholding and without interest, to all Shareholders whose Shares are accepted for payment pursuant to the Offer. We will pay the Purchase Price promptly after expiration of the Offer, but do not expect to begin making such payments until at least three business days following the Expiration Time. Only Shares validly tendered and not validly withdrawn, will be eligible for purchase in the Offer. Shares will be purchased at the Purchase Price, on the terms and subject to the conditions of the Offer. See page 52 for a description of our right to extend, delay, terminate or amend the Offer.

If you want to tender your Shares, but your certificates for the Shares are not immediately available or cannot be delivered to Broadridge Corporate Issuer Solutions, Inc., you cannot comply with the procedure for book-entry transfer or you cannot deliver the other required documents to Broadridge Corporate Issuer Solutions, Inc. by the Expiration Time, you may still tender your Shares if you comply with the guaranteed delivery procedure described on page 18.

We will purchase Shares acquired pursuant to the Offer free and clear of all liens, charges, encumbrances, security interests, claims, restrictions and equities whatsoever, together with all rights and benefits arising therefrom, provided that any dividends or distributions which may be declared, paid, issued, distributed, made or transferred on or in respect of such Shares to Shareholders of record on or prior to the date on which the Shares are purchased under the Offer will be for the account of such Shareholders.

The Offer is not conditioned upon any minimum number of Shares being tendered. The Offer is, however, subject to a number of other terms and conditions. See "Conditions of the Offer."

Priority of Purchases. If the conditions to the Offer have been satisfied or waived and 340,000 Shares or fewer are validly tendered and not validly withdrawn prior to the Expiration Time, we may buy all Shares validly tendered and not validly withdrawn at a price equal to the Purchase Price (including Shares tendered without a price specified), provided that we may also buy fewer than such number of Shares on a pro rata basis.

If the conditions to the Offer have been satisfied or waived and more than 340,000 Shares have been validly tendered and not validly withdrawn prior to the Expiration Time, we may purchase Shares on a pro rata basis from all Shareholders who validly tender Shares and do not validly withdraw them before the expiration of the Offer, provided that we may also purchase fewer than 340,000 shares on a pro rata basis. As a result of this proration, it is possible that all of the Shares that a Shareholder tenders in the Offer may not be purchased. In addition, if a tender is conditioned upon the purchase of a specified number of Shares, it is possible that none of those Shares will be purchased.

Proration. The proration period is the period for accepting Shares on a pro rata basis in the event that the Offer is over-subscribed. The proration period will expire at the Expiration Time. If proration of tendered Shares is required, we will determine the proration factor promptly following the Expiration Time. Subject to adjustment to avoid the purchase of fractional Shares and subject to conditional tenders described under "Conditional Tender of Shares," proration for each Shareholder tendering Shares will be based on the ratio of the total number of Shares to be purchased by us to the number of Shares validly tendered and not validly withdrawn by all Shareholders. This ratio will be applied to Shareholders validly tendering Shares to determine the number of Shares that will be purchased from each tendering Shareholder in the Offer. Because of the time required to verify the number of Shares validly tendered and not validly withdrawn, if the Offer is over-subscribed, we do not expect that we will be able to announce the final proration factor or commence payment for any Shares purchased pursuant to the Offer until up to three business days after the Expiration Time. In the event of proration, we will determine the proration factor promptly following the Expiration Time, and the preliminary results of any proration will be announced by press release promptly after the Expiration Time. After the Expiration Time, Shareholders may obtain preliminary proration information from the Bank and also may be able to obtain the information from their brokers.

As described under "Certain United States Federal Income Tax Consequences," the number of Shares that we will purchase from a Shareholder pursuant to the Offer may affect the U.S. federal income tax consequences of the purchase to the Shareholder and, therefore, may be relevant to a Shareholder's decisions whether or not to tender Shares and whether or not to condition any tender upon our purchase of a stated number of Shares held by such Shareholder. The Letter of Transmittal affords each Shareholder who tenders Shares registered in such Shareholder's name directly to Broadridge Corporate Issuer Solutions, Inc. the opportunity to designate the order of priority in which Shares tendered are to be purchased in the event of proration as well as the ability to condition such tender on a minimum number of Shares being purchased. See "Conditional Tender of Shares."

This Disclosure Statement and the Letter of Transmittal will be mailed to record holders of the Shares and will be furnished to brokers, dealers, commercial banks, trust companies and other nominees and similar persons whose names, or the names of whose nominees, appear on the Bank's Shareholder list or, if applicable, who are listed as participants in a clearing agency's security position listing for subsequent transmittal to beneficial owners of Shares.

Purpose of the Offer; Certain Effects of the Offer

Purpose of the Offer. The Board of Directors approved the Offer with the goal of reinvesting in the Bank. In particular, by repurchasing the Shares, the Bank believes that it can provide improved performance with respect to the Bank's Shareholders while providing Shareholders who desire to sell their shares with additional liquidity.

If we complete the Offer, Shareholders who do not participate in the Offer, including our directors, executive officers and affiliates, and do not otherwise sell their Shares will increase their relative percentage equity ownership interest in us. After the completion of the Offer, purchases we make may be on the same terms as, or on terms more or less favorable to Shareholders than, the terms of the Offer. Any possible future purchases by us will depend on many factors, including the trading price of the Shares, the results of the Offer, our business and financial condition and general economic and market conditions.

Shareholders who wish to achieve a greater percentage of equity ownership in the Bank will be able to do so by not tendering their Shares in the Offer or otherwise selling their Shares and, if the Bank completes the Offer, will therefore have a greater percentage ownership in the Bank and its future operations, while also bearing the attendant risks associated with owning Shares.

After the completion of the Offer, purchases we make may be on the same terms as, or on terms more or less favorable to Shareholders than, the terms of the Offer. Any possible future purchases by us will depend on many factors, including the market price of the Shares, the results of the Offer, our business and financial condition and general economic and market conditions.

Our Board of Directors has authorized the Offer, but none of the Board of Directors, the Bank or any of our affiliates have made, and they are not making, any recommendation to you as to whether you should tender or refrain from tendering your Shares pursuant to the Offer. We have not authorized any person to make any such recommendation. You must make your own decision as to whether to tender your Shares and, if so, how many Shares to tender. In doing so, you should carefully read the information in, or incorporated by reference in, this Disclosure Statement and in the Letter of Transmittal, including the purpose and effects of the Offer. You are urged to discuss your decision with your own tax, legal and financial advisors or broker.

Certain Effects of the Offer. Shareholders who do not tender their Shares in the Offer and Shareholders who otherwise retain Shares in the Bank as a result of a partial tender of Shares or proration will continue to be owners of the Bank and be subject to the risks of such ownership. If we complete the Offer, those Shareholders will realize an automatic increase in their relative ownership interest in the Bank and also will bear the attendant risks associated with the increased ownership interest. Shareholders may be able to sell non-tendered Shares in the future at a net price that may be more or less favorable than the Purchase Price to be paid to our Shareholders pursuant to the Offer. We can give no assurance as to the price at which a Shareholder may be able to sell its Shares in the future.

The Offer will reduce our "public float," which is the number of Shares owned by Shareholders and available for trading in the securities markets. This could reduce the volume of trading in our Shares and may affect stock prices and liquidity in the trading of our Shares. In addition, the Offer will increase the proportional ownership of officers and directors who do not participate in the Offer and any other Shareholders who do not participate or participate only in part in the Offer.

In addition, strategic acquisitions have been and are expected to continue to be part of our strategy. While we believe that our financial resources are sufficient to enable us to pursue our strategy, purchases of Shares will reduce our capital resources available for acquisitions and other purposes.

Although we are a highly regulated company, Shareholders are generally not required to obtain regulatory approval to sell Shares to us pursuant to the Offer. Certain federal laws require regulatory approvals for acquiring or owning more than certain percentage thresholds of our Shares for Shareholders and groups acting in concert. Based on Share ownership information available to us, we believe that our purchase of Shares pursuant to the Offer could cause at least one Shareholder to exceed an applicable regulatory ownership threshold. Shareholders with substantial equity ownership stakes in us are encouraged to consult their own counsel or regulatory authorities with respect to these matters.

Members of our Board of Directors and officers beneficially own 63,546 Shares, or 1.60% of our outstanding Shares. Our directors and executive officers have informed us that they do not currently intend to tender Shares beneficially owned by them in the Offer. Purchases of Shares pursuant to the Offer will increase the percentage equity ownership of non-tendering Shareholders, including directors, executive officers and affiliates who do not sell Shares in the Offer. As a result, the beneficial ownership of our directors, executive officers and affiliates will increase as a percentage of our outstanding Shares following the consummation of the Offer.

Our directors, executive officers and affiliates, subject to applicable law and applicable policies of the Bank, may in the future sell their Shares from time to time in open market and other transactions at prices that may be more or less favorable than the Purchase Price to be paid to our Shareholders pursuant to the Offer. Whether executive officers and such other directors will sell Shares, the timing of sales and the amounts sold will depend on their particular circumstances, including their tenure with the Bank, personal financial planning considerations, capital requirements and other factors, as well as our Share ownership and trading policies.

Shares acquired pursuant to the Offer will become treasury stock of the Bank and will be available to us without further Shareholder action, except as required by applicable law or other rules or restrictions for purposes including the acquisition of other businesses, the raising of additional capital for use in our business and the satisfaction of obligations under existing or future employee benefit or compensation programs or stock plans or compensation programs for directors. We currently have no plans to issue any of the Shares purchased in the Offer.

Procedures for Tendering Shares

Valid Tender of Shares. For Shares to be tendered validly in the Offer:

- the certificates for the Shares or confirmation of receipt of the Shares under the procedure for book-entry transfer set forth below, together with a properly completed and duly executed Letter of Transmittal, including any required signature guarantees, or an Agent's Message (as defined below) in the case of a book-entry transfer, and any other documents required by the Letter of Transmittal, must be received prior to the end of the day on the Expiration Time by Broadridge Corporate Issuer Solutions, Inc. at its addresses set forth in the Letter of Transmittal; or

- the tendering Shareholder must comply with the guaranteed delivery procedures set forth below.

Notwithstanding any other provisions hereof, payment for Shares tendered and accepted for payment pursuant to the Offer will be made only after timely receipt by the Bank of certificates for such Shares (or a timely confirmation of a book-entry transfer of such Shares into the Bank's account), a properly completed and duly executed Letter of Transmittal (or facsimile thereof) with any required signature guarantees, or an Agent's Message in connection with book-entry delivery and any other documents required by the Letter of Transmittal.

Shareholders holding Shares in street name in a brokerage account or otherwise through a broker, dealer, commercial bank, trust company or other nominee must contact their broker, dealer, commercial bank, trust company or other nominee in order to tender their Shares. Shareholders who hold Shares through nominee Shareholders are urged to consult their nominees to determine whether any charges may apply if Shareholders tender Shares through such nominees and not directly to Broadridge Corporate Issuer Solutions, Inc.

Shareholders may tender Shares subject to the condition that all or a specified minimum number of Shares be purchased. Any Shareholder desiring to make such a conditional tender should so indicate in the section entitled "Conditional Tender" in the Letter of Transmittal and, if applicable, in the Notice of Guaranteed Delivery. It is the tendering Shareholder's responsibility to determine the minimum number of Shares to be purchased. Shareholders are urged to consult their own investment and tax advisors with respect to the effect of proration of the Offer and the advisability of making a conditional tender.

Tendering Shareholder's Representation and Warranty; Our Acceptance Constitutes an Agreement. The tender of Shares pursuant to any one of the procedures described above will constitute the tendering Shareholder's acceptance of the terms and conditions of the Offer and an agreement between the tendering Shareholder and us, on the terms and subject to the conditions of the Offer, which agreement will be governed by, and construed in accordance with the laws of the State of Washington.

Shareholders holding Shares in street name in a brokerage account or otherwise through a broker, dealer, commercial bank, trust company or other nominee must contact their broker, dealer, commercial bank, trust company or other nominee in order to tender their Shares. Shareholders who hold Shares through nominee Shareholders are urged to consult their nominees to determine whether any charges may apply if Shareholders tender Shares through such nominees and not directly to Broadridge Corporate Issuer Solutions, Inc.

Signature Guarantees and Method of Delivery. If a certificate for Shares is registered in the name of a person other than the person executing a Letter of Transmittal, or if payment is to be made to a person other than the registered holder of the certificate surrendered, then the tendered certificate or Letter of Transmittal must be endorsed or accompanied by an appropriate stock power, signed in either case exactly as the name of the registered holder appears on the certificate, with the signature guaranteed by an Eligible Institution (as defined below). No signature guarantee is required if:

- the Letter of Transmittal is signed by the registered holder of the Shares tendered and the holder has not completed either the section entitled "Special Delivery Instructions" or the section entitled "Special Payment Instructions" in the Letter of Transmittal; or

- Shares are tendered for the account of a broker, dealer, commercial bank, credit union, savings association or other entity which is a member in good standing of the Securities Transfer Agents Medallion Program or a broker, dealer, commercial bank, credit union, savings association or other entity that is also an "eligible guarantor institution," as the term is defined in Rule 17Ad-15 under the Exchange Act (each of the foregoing constituting an "Eligible Institution").

In all cases, payment for Shares tendered and accepted for payment pursuant to the Offer will be made only after timely receipt by Broadridge Corporate Issuer Solutions, Inc. of certificates for the Shares and a properly completed and duly executed Letter of Transmittal, including any required signature guarantees and any other documents required by the Letter of Transmittal.

The method of delivery of all documents, including certificates for Shares, the Letter of Transmittal and any other required documents, is at the sole election and risk of the tendering Shareholder. Shares will be deemed delivered only when actually received by Broadridge Corporate Issuer Solutions, Inc. If delivery is by mail, then registered mail with return receipt requested, validly insured, is recommended. In all cases, sufficient time should be allowed to ensure timely delivery.

Except for shares held in street name, all deliveries made in connection with the Offer, including a Letter of Transmittal and certificates for Shares, must be made to Broadridge Corporate Issuer Solutions, Inc. Any documents delivered to any other party will not be forwarded to Broadridge Corporate Issuer Solutions, Inc. or to the Bank and therefore will not be deemed to be validly tendered.

Book-Entry Delivery. The Bank will establish an account with respect to the Shares for purposes of the Offer at DTC within two business days after the date of this Disclosure Statement, and any financial institution that is a participant in DTC's system may make book-entry delivery of the Shares by causing DTC to transfer those Shares into the Bank's account in accordance with DTC's procedures for that transfer. Although delivery of Shares may be effected through a book-entry transfer into the Bank's account at DTC, either (1) a properly completed and duly executed Letter of Transmittal, with any required signature guarantees, or an Agent's Message, and any other required documents must, in any case, be transmitted to, and received by, Broadridge Corporate Issuer Solutions, Inc. at its addresses set forth in the Letter of Transmittal prior to the Expiration Time or (2) the guaranteed delivery procedures described below must be followed if book-entry transfer of the Shares cannot be effected prior to the Expiration Time.

The confirmation of a book-entry transfer of Shares into the Bank's account at DTC is referred to in this Disclosure Statement as a "book-entry confirmation." Delivery of documents to DTC in accordance with DTC's procedures will not constitute delivery to Broadridge Corporate Issuer Solutions, Inc.

The term "Agent's Message" means a message transmitted by DTC to, and received by, the Bank and forming a part of a book-entry confirmation, which states that DTC has received an express acknowledgement from the participant tendering Shares through DTC that such participant has received, and agrees to be bound by, the terms of the Letter of Transmittal and that we may enforce such agreement against that participant.

Guaranteed Delivery. If a Shareholder desires to tender Shares in the Offer and cannot deliver all required documents to Broadridge Corporate Issuer Solutions, Inc. prior to the Expiration Time, the Shares may still be tendered if all of the following conditions are satisfied:

- the tender is made by or through an Eligible Institution;
- Broadridge Corporate Issuer Solutions, Inc. receives by mail, overnight courier or facsimile transmission, prior to the Expiration Time, a properly completed and duly executed Notice of Guaranteed Delivery in the form the Bank will provide to you upon request, including (where required) a signature guarantee by an Eligible Institution in the form set forth in the Notice of Guaranteed Delivery; and
- a confirmation of a book-entry transfer of such Shares into the Bank's account (or any certificates for such Shares), together with a properly completed and duly executed Letter of Transmittal with any required signature guarantee or an Agent's Message and any other documents required by the Letter of Transmittal, are received by Broadridge Corporate Issuer Solutions, Inc. within two business days after the date of execution of the Notice of Guaranteed Delivery.

U.S. Federal Income Tax Backup Withholding. Under the U.S. federal income tax backup withholding rules, a portion of the gross proceeds payable to a Shareholder or other payee pursuant to the Offer may be withheld and remitted to the IRS, unless the Shareholder or other payee (1) properly establishes that it is an "exempt recipient" (as defined below) or otherwise establishes it is exempt from backup withholding or (2) duly completes, signs and submits IRS Form W-9 included as part of the Letter of Transmittal certifying under penalties of perjury that (A) the tax identification number provided on the IRS Form W-9 is correct, (B) it is a "United States person" for United States federal income tax purposes and (C) it is not subject to backup withholding. If a United States Holder does not provide the applicable withholding agent with the correct taxpayer identification number, the United States Holder may be subject to penalties imposed by the IRS.

Certain "exempt recipients" are not subject to backup withholding. Backup withholding is not an additional tax. If backup withholding results in an overpayment of taxes, a refund may be obtained from the IRS in accordance with its refund procedures. Shareholders should consult their own tax advisors regarding the application of backup withholding to their particular circumstances and the availability of, and procedure for obtaining, an exemption from backup withholding. For a discussion of U.S. federal income tax consequences to tendering Shareholders, see "Certain United States Federal Income Tax Consequences."

Determination of Validity; Rejection of Shares; Waiver of Defects; No Obligation to Give Notice of Defects. All questions as to the number of Shares to be accepted and the validity, form, eligibility, including time of receipt, and acceptance for payment of any tender of Shares will be determined by the Bank in our sole discretion, and will be final and binding on all parties absent a finding to the contrary by a court of competent jurisdiction. The Bank reserves the absolute right to:

- reject any or all tenders of any Shares that it determines are not in proper form or the acceptance for payment of or payment for any Shares which it determines may be unlawful;

- waive any of the conditions of the Offer prior to the Expiration Time with respect to all tendered Shares;

- amend or terminate the Offer; and

- waive any defect or irregularity in any tender with respect to any particular Shares, whether or not we waive similar defects or irregularities in the case of any other Shareholder.

No tender of Shares will be deemed to have been validly made until all defects or irregularities have been cured by the tendering Shareholder or waived by the Bank. The Bank will not be liable for failure to waive any condition of the Offer, or any defect or irregularity in any tender of Shares. None of the Bank any of our respective affiliates or any other person will be obligated to give notice of any defects or irregularities in tenders, nor will any of them incur any liability for failure to give any such notice.

Return of Unpurchased Shares. If any validly tendered Shares are not purchased pursuant to the Offer or are validly withdrawn before the Expiration Time, or if less than all Shares evidenced by a Shareholder's certificates are tendered, certificates for unpurchased Shares will be returned promptly after the expiration or termination of the Offer or the proper withdrawal of the Shares, as applicable, or, in the case of Shares validly tendered by book-entry transfer, the Shares will be credited to the appropriate account maintained by the tendering Shareholder, in each case without expense to the Shareholder.

Lost, Stolen, Destroyed or Mutilated Certificates. Shareholders whose certificate for part or all of their Shares have been lost, stolen, destroyed or mutilated may contact Broadridge Corporate Issuer Solutions, Inc. as Transfer Agent for our Shares, at the address set forth on the cover of this Disclosure Statement. The replacement certificate will then be required to be submitted together with the Letter of Transmittal in order to receive payment for Shares that are tendered and accepted for payment. A bond may be required to be posted by the Shareholder to secure against the risk that the certificates may be subsequently recirculated. Shareholders are urged to contact the Transfer Agent immediately in order to permit timely processing of this Disclosure Statement and to determine if the posting of a bond is required.

CERTIFICATES FOR SHARES, TOGETHER WITH A PROPERLY COMPLETED AND DULY EXECUTED LETTER OF TRANSMITTAL OR FACSIMILE THEREOF, OR AN AGENT'S MESSAGE, AND ANY OTHER DOCUMENTS REQUIRED BY THE LETTER OF TRANSMITTAL, MUST BE DELIVERED TO BROADRIDGE CORPORATE ISSUER SOLUTIONS, INC. ANY SUCH DOCUMENTS NOT DELIVERED TO BROADRIDGE CORPORATE ISSUER SOLUTIONS, INC. WILL NOT BE DEEMED TO BE VALIDLY TENDERED.

Withdrawal Rights

Tenders of Shares made pursuant to the Offer may be withdrawn at any time prior to the Expiration Time. Thereafter, such tenders are irrevocable, except that they may be withdrawn after 12:00 midnight, Cashmere, Washington time, at the end of the day on May 13, 2021, the 30th day after the commencement of the Offer, unless accepted for payment as provided in this Disclosure Statement. If we extend the period of time during which the Offer is open, are delayed in accepting for payment or paying for Shares or are unable to accept for payment or pay for Shares pursuant to the Offer for any reason, then, without prejudice to our rights under the Offer, the Bank may, retain all Shares tendered, and such Shares may not be withdrawn except as otherwise provided herein, subject to applicable law.

For a withdrawal to be effective, a written or facsimile transmission notice of withdrawal must:

- be timely received by Broadridge Corporate Issuer Solutions, Inc. at the addresses set forth in the Letter of Transmittal; and
- specify the name of the person who tendered the Shares to be withdrawn, the number of Shares to be withdrawn and the name of the registered holder of the Shares, if different from that of the person who tendered such Shares.

If the Shares to be withdrawn have been delivered to Broadridge Corporate Issuer Solutions, Inc., a signed notice of withdrawal with signatures guaranteed by an Eligible Institution (except in the case of Shares tendered by an Eligible Institution) must be submitted prior to the release of such Shares. In addition, such notice must specify, in the case of Shares tendered by delivery of certificates, the name of the registered holder (if different from that of the tendering Shareholder) and, if applicable, the serial numbers shown on the particular certificates evidencing the Shares to be withdrawn or, in the case of Shares tendered by book-entry transfer, the name and number of the account at the Book-Entry Transfer Facility to be credited with the withdrawn Shares.

Withdrawals may not be rescinded, and Shares withdrawn will thereafter be deemed not validly tendered for purposes of the Offer. However, withdrawn Shares may be retendered by following one of the procedures described under “Procedures for Tendering Shares” at any time prior to the Expiration Time.

We will determine all questions as to the form and validity (including time of receipt) of any notice of withdrawal. We also reserve the right to waive any defect or irregularity in the withdrawal of Shares by any Shareholder. None of the Bank or any of its respective affiliates or any other person will be under any duty to give notification of any defect or irregularity in any notice of withdrawal or incur any liability for failure to give any such notification.

Purchase of Shares and Payment of Purchase Price

On the terms and subject to the conditions of the Offer, promptly following the Expiration Time, we may pay the Purchase Price for up to 340,000 Shares that are validly tendered and not validly withdrawn prior to the Expiration Time, provided that we may purchase fewer than such number of shares on a pro rata basis. For purposes of the Offer, we will be deemed to have accepted for payment, subject to proration provisions of the Offer, Shares that are validly tendered and not validly withdrawn.

On the terms and subject to the conditions of the Offer, we will accept for payment and pay the Purchase Price per Share for all of the Shares accepted for payment pursuant to the Offer promptly after the Expiration Time only after timely receipt by Broadridge Corporate Issuer Solutions, Inc. of (1) certificates for Shares, or a timely book-entry confirmation of the deposit of Shares into the Bank’s account at DTC, (2) a properly completed and duly executed Letter of Transmittal including any required signature guarantees, or, in the case of a book-entry transfer, an Agent’s Message, and (3) any other required documents.

In the event of proration, we will determine the proration factor and pay for those tendered Shares accepted for payment promptly after the Expiration Time. Certificates for all Shares tendered and not purchased, including Shares not purchased due to proration tenders, will be returned or, to the tendering Shareholder at our expense promptly after the Expiration Time or termination of the Offer.

The Bank will pay for Shares purchased pursuant to the Offer. **Under no circumstances will we pay interest on the Purchase Price, even if there is any delay in making payment. In addition, if certain events occur prior to the Expiration Time, we may not be obligated to purchase Shares pursuant to the Offer. See “Conditions to the Offer.”**

Conditional Tender of Shares

Under certain circumstances described herein, if the Offer is over-subscribed, we will prorate the Shares purchased pursuant to the Offer. As discussed in "Certain United States Federal Income Tax Consequences," the number of Shares to be purchased from a particular Shareholder may affect the U.S. federal income tax treatment of the purchase to the Shareholder and the Shareholder's decision whether to tender. The conditional tender alternative is being made available for Shareholders seeking to take steps to have payment for Shares sold pursuant to the Offer treated as received in a sale or exchange of such Shares by the Shareholder, rather than as a distribution to the Shareholder, for U.S. federal income tax purposes. Accordingly, a Shareholder may tender Shares subject to the condition that all or a specified minimum number of the Shareholder's Shares tendered must be purchased if any Shares tendered are purchased. Any Shareholder desiring to make a conditional tender must so indicate in the section entitled "Conditional Tender" in the Letter of Transmittal, and, if applicable, in the Notice of Guaranteed Delivery. It is the tendering Shareholder's responsibility to calculate the minimum number of Shares that must be purchased from the Shareholder in order for the Shareholder to qualify for sale or exchange (rather than distribution) treatment for U.S. federal income tax purposes. **Shareholders are urged to consult with their own tax advisors. No assurances can be provided that a conditional tender will achieve any particular U.S. federal income tax result for any Shareholder tendering Shares.**

After the Expiration Time, if the number of Shares validly tendered and not validly withdrawn would result in more than 340,000 Shares so that we must prorate our acceptance of and payment for tendered Shares, we will calculate a preliminary proration percentage, based upon all Shares validly tendered, conditionally or unconditionally, and not validly withdrawn. If the effect of this preliminary proration would be to reduce the number of Shares to be purchased from any tendering Shareholder below the minimum number specified by that Shareholder, the Shares conditionally tendered will automatically be regarded as withdrawn (except as provided in the next paragraph). All Shares tendered by a Shareholder subject to a conditional tender and that are withdrawn as a result of proration will be returned at our expense to the tendering Shareholder promptly after the Expiration Time.

After giving effect to these withdrawals, on the terms and subject to the conditions of the Offer, we may accept the remaining Shares validly tendered, conditionally or unconditionally, on a pro rata basis. If the withdrawal of conditional tenders would cause the total number of Shares to be purchased to fall below 340,000, then, to the extent feasible, we may select enough of the Shares conditionally tendered that would otherwise have been withdrawn to permit us to purchase such number of Shares that would result in an aggregate of 340,000 Shares being purchased. In selecting among the conditional tenders, we will select by treating all tenders by a particular Shareholder as a single lot, and will limit our purchase in each case to the designated minimum number of Shares to be purchased. To be eligible for purchase by random lot, Shareholders whose Shares are conditionally tendered must have validly tendered all of their Shares.

Conditions of the Offer

Notwithstanding any other provision of the Offer, we will not be required to accept for payment, purchase or pay for any Shares tendered, and may postpone the acceptance for payment of, or the purchase of or the payment for, Shares tendered (and we may terminate, amend or extend the Offer at any time in our sole and absolute discretion whether or not any or all of these conditions have been satisfied) if at any time prior to the Expiration Time, any of the following events or circumstances shall have occurred (or shall have been reasonably determined by us to have occurred):

- there shall have been instituted, or there shall be pending, or we shall have received notice of any action, suit, proceeding or application by any government or governmental, regulatory or administrative agency, authority or tribunal or by any other person, domestic, foreign or supranational, before any court, authority, agency, other tribunal or arbitrator or arbitration panel that directly or indirectly:

    - challenges or seeks to challenge, restrain, prohibit, delay or otherwise affect the making of the Offer, the acquisition by us of some or all of the Shares pursuant to the Offer or otherwise relates in any manner to the Offer or seeks to obtain material damages in respect of the Offer; or

- seeks to make the purchase of, or payment for, some or all of the Shares pursuant to the Offer illegal; or
- may result in a delay in our ability to accept for payment or pay for some or all of the Shares;

- our acceptance for payment, purchase or payment for any Shares tendered in the Offer shall violate or conflict with, or otherwise be contrary to, any applicable law, statute, rule, regulation, decree, injunction or order;

- any action shall have been taken or any statute, rule, regulation, judgment, decree, injunction or order (preliminary, permanent or otherwise) shall have been proposed, sought, enacted, entered, promulgated, enforced or deemed to be applicable to the Offer or us or any of our subsidiaries by any court, government or governmental agency or other regulatory or administrative authority or body, domestic foreign or supranational, which:

    - indicates that any additional approval or other action of any such court, government, agency or authority may be required in connection with the Offer or the purchase of Shares thereunder; or
    - is reasonably likely to make the purchase of, or payment for, some or all of the Shares pursuant to the Offer illegal or to prohibit, restrict or delay consummation of the Offer;

- there shall have occurred any of the following:

    - any decrease of more than 10% in the market price in the Dow Jones Industrial Average, the New York Stock Exchange Index, the New York Stock Exchange Composite Index, the NASDAQ Composite Index or the Standard and Poor's 500 Composite Index measured from the close of trading on the date of this Disclosure Statement;
    - any general suspension of trading in securities on any United States national securities exchange or in the over-the-counter market, the declaration of a banking moratorium or any suspension of payments in respect of banks in the United States, whether or not mandatory, or any limitation, whether or not mandatory, by any governmental, regulatory or administrative agency or authority on, or any event that is likely, in our reasonable judgment, to materially adversely affect, the extension of credit by banks or other lending institutions in the United States;
    - the commencement or escalation, on or after the date of this Disclosure Statement, of war, armed hostilities or other international or national calamity, including, but not limited to, an act of terrorism, directly or indirectly involving the United States;
    - any change, condition, event or development, or any condition, event or development involving a prospective change, occurs, is discovered or is threatened relating to (1) general political, market, economic, financial or industry conditions in the United States or (2) our business, general affairs, management, financial position, shareholders' equity, income, results of operations, properties, assets, liabilities, condition (financial or otherwise), income, operations, licenses, franchises, permits or prospects, which in our reasonable judgment is or may be materially adverse to us or otherwise makes it inadvisable for us to proceed with the Offer; or
    - in the case of any of the preceding three bullets existing at the time of the announcement of the Offer, as applicable, a material acceleration or worsening thereof;

- a tender or exchange offer for any or all of our outstanding Shares (other than the Offer), or any merger, amalgamation, acquisition, business combination or other similar transaction with or involving us, shall have been proposed, announced or made by any third person or entity or shall have been publicly disclosed by a third person, or we shall have entered into a definitive agreement or an agreement in principle with any person with respect to a merger, amalgamation, acquisition, business combination or other similar transaction involving us;

- we shall have learned after the date of this Disclosure Statement that any entity, “group” (as that term is used in Section 13(d)(3) of the Exchange Act) or person (1) has acquired or proposes to acquire beneficial ownership of more than 5% of our outstanding Shares, whether through the acquisition of stock, the formation of a group, the grant of any option or right (options for and other rights to acquire Shares of our common stock that are acquired or proposed to be acquired being deemed to be immediately exercisable or convertible for purposes of this clause) or otherwise (other than an Existing 5+% Holder, or (2) who is an Existing 5+% Holder on or before the date of this Disclosure Statement and who acquired or proposes to acquire, whether through the acquisition of Shares, the formation of a group, the grant of any option or right (options for and other rights to acquire Shares of our common stock that are acquired or proposed to be acquired being deemed to be immediately exercisable or convertible for purposes of this clause) or otherwise (other than by virtue of the consummation of the Offer), beneficial ownership of an additional 1% or more of our outstanding Shares;

- the consummation of the Offer and the purchase of Shares will cause the Shares to cease to be quoted on the OTCQX;

- there shall have occurred any limitation, whether or not mandatory, by any governmental, regulatory or administrative agency or authority on, or any event that could reasonably be expected to materially affect, the extension of credit by banks or other lending institutions in the United States; or

- any approval, permit, authorization, favorable review or consent or waiver of or filing with any domestic or foreign governmental entity or other authority or any third-party consent or notice, required to be obtained or made in connection with the Offer shall not have been obtained or made on terms and conditions satisfactory to us in our reasonable judgment.

Each of the conditions referred to above is for our sole benefit and may be asserted or waived by us, in whole or in part, prior to the Expiration Time. In certain circumstances, if we waive any of the conditions described above, we may be required to extend the Offer. See “Extension of the Offer; Termination; Amendment.” Any determination by us concerning the fulfillment or non-fulfillment of the conditions described above will be final and binding on all parties, except as finally determined in a subsequent judicial proceeding if our determinations are challenged by Shareholders.

Prices for Shares; Dividends

Our common stock is quoted on the OTCQX under the symbol “CSHX.” The following table sets forth the high and low sales prices for the common stock as reported by the OTCQX for the periods indicated.

2018		High	Low	Dividends
	First Quarter	$ 70.00	$ 58.00	$ 2.10
	Second Quarter	69.00	65.00	-
	Third Quarter	72.02	68.00	0.60
	Fourth Quarter	72.00	53.01	-
2019				
	First Quarter	$ 60.00	$ 54.99	$ 0.65
	Second Quarter	60.00	57.61	-
	Third Quarter	61.00	57.30	0.65
	Fourth Quarter	63.00	58.00	-
2020				
	First Quarter	$ 65.00	$ 36.01	$ 2.70
	Second Quarter	48.29	39.01	-
	Third Quarter	44.97	41.30	0.70
	Fourth Quarter	53.50	43.00	-

On March 31, 2021, the last practicable trading day, the last reported sale price of the Shares on the OTCQX was $61.00.

You are urged to seek to obtain current market information for our Shares or advice from your financial advisor before deciding whether, and at what price or prices, to tender your Shares pursuant to the Offer and, if so, how many Shares to tender.

The payment of dividends in the future is subject to the continued review by the Board of Directors.

Source and Amount of Funds

The Offer is not subject to a financing condition. Assuming the Bank elects to purchase the maximum 340,000 Shares in the Offer and that the Offer is fully subscribed, we expect the aggregate purchase price for the Shares, together with all related fees and expenses, to be approximately $23.8 million. We intend to fund any purchase of Shares pursuant to the Offer and such fees and expense, from cash on hand.

Certain Information Concerning the Bank

The Bank

The Bank is a Washington state-chartered non-member bank. The Bank is subject to supervision by the FDIC and the Washington State Department of Financial Institutions. At December 31, 2020, the Bank had approximately $1,994,288,000 in total assets, $937,240,000 in net loans, $1,719,971,000 in total deposits and $238,678,000 in shareholders' equity. For a more complete summary of the Bank's financial information, see the Bank's financial statements and notes thereto, attached hereto as Exhibit B, and incorporated herein by this reference. Our principal executive office is located at 117 Aplets Way, Cashmere, WA 98815, our telephone number is 509-782-1501 and our website is www.cvb.bank.

The Bank was established September 24, 1932 by two brothers, Hy W. Rieke and H.H. Rieke, who moved to Cashmere after selling their interest in another bank in Odessa, Washington. Cashmere was chosen as the site to begin their new bank because the community was without a financial institution after the failure of two banks during the beginning of the Great Depression. From the mid-1970s to the early 1990s, Cashmere Valley Bank opened five new branches to better serve the Wenatchee, Leavenworth and East Wenatchee communities.

Market Areas

The Bank has 12 branches in Washington located in Cashmere, Wenatchee, Chelan, Cle Elum, Ellensburg, and Yakima with a Municipal Banking office in Bellevue.

Bank Operating Strategy

Our primary business strategy is to provide high quality community banking and related financial services to customers in our markets and increase market share through active solicitation of new business, repeat business and referrals from customers, and implementation of select promotional strategies. Our target market is businesses and their owners, their families and individuals. We seek to be a middle-market commercial bank that also provides private and consumer banking services. We provide commercial real estate loans, commercial business loans not primarily secured by real estate and loans guaranteed by the Small Business Administration (SBA). We provide consumer lending products including home mortgage loans, auto loans and other consumer loans. We also provide deposit products and services, including cash management services such as remote deposit capture, lockboxes, ACH transactions and online services.

We believe that our banking customers seek a relationship-based and service-oriented banking organization. Because of this primary customer need, we lead with talent and seek to hire experienced bankers that have existing and strong relationships with their clients. Our operational systems have been designed to facilitate state-of-the-art personalized service. We believe that our banking locations have an atmosphere that facilitates personalized services and decision-making while offering a broad array of products to meet customers' needs. Though our primary emphasis is on customer service and our management's banking experience, we intend to continue attracting customers by focusing on the following:

- Products Offered – We offer a full range of commercial and private banking services and products that are on par with significantly larger organizations, including the following: checking accounts, savings accounts, money market accounts, certificates of deposit, NOW accounts, Individual Retirement Accounts, Visa debit cards, Visa credit cards and ATM access. We also have treasury management products, including remote deposit capture and online personal and business services. To select individuals, we may also offer installment loans and other secured and unsecured loans. See "Lending Services" below for a discussion of products we provide to commercial accounts.

- Operational Efficiencies – We seek to maximize operational and support efficiencies consistent with maintaining high quality customer service.

- Marketing Activities – We focus on an active solicitation program for new business and identify and develop products and services that satisfy customer needs. Our marketing programs utilize local print and promotional materials and we are committed to sponsoring community events within our service areas. We believe that active community involvement contributes to our long-term success.

Lending Services

We provide a broad range of commercial and private lending services. The Bank follows a uniform credit policy, which contains underwriting and loan administration criteria, levels of loan commitment, loan types, credit criteria, concentration limits, loan administration, loan review and grading and related matters. In addition, we provide ongoing loan officer training and review and operate a centralized processing and servicing center for loans. At December 31, 2020, substantially all loans outstanding were to customers within our market area.

Loan Administration. We maintain a loan committee approach to lending, which we believe yields positive results in both responsiveness to customer needs and asset quality. We have a loan committee, which meets as needed to review and discuss loans. In addition, the loan committee reviews past due loans, classified loans, loan concentrations and policy exceptions.

Interest rates charged on loans vary with the degree of risk, maturity, costs of underwriting and servicing, loan amount, and the extent of other banking relationships maintained with customers, and is further subject to competitive pressures, availability of funds and government regulations.

Commercial Loans. These loans consist primarily of loans to businesses for various purposes, including revolving lines of credit and equipment financing. These loans are secured by collateral other than real estate, such as inventory, accounts receivable, machinery, government guarantees, or other commercial assets, and they generally mature within one year and have adjustable interest rates. Revolving lines of credit are generally for business purposes, mature annually and have adjustable interest rates. It is our standard practice in making commercial loans to receive real estate as collateral in addition to other appropriate collateral. The primary repayment risk of commercial loans is the failure of the borrower's business due to economic or financial factors.

Real Estate Loans. These loans include various types of loans for which we hold real property as collateral. Interest rates on these loans typically adjust annually, or more frequently. Real estate construction loans include both commercial and residential, but are principally made to builders to construct single family residences, of which many are sold to purchasers prior to construction. Real estate construction loans typically have maturities of 12 to 18 months and charge origination fees. Terms may vary depending upon many factors, including location, type of project and financial condition of the borrower. The primary risks of real estate mortgage loans include the borrower's inability to pay and deterioration in value of real estate that is held as collateral.

Indirect Auto Loans. Indirect auto loan is financing individuals can get through the auto dealer and their lending partners that generally occurs after a consumer has found a car at a dealership. The primary risk of indirect auto lending relates to the personal circumstances of the borrower.

Municipal Lending. We lend to municipalities in Washington and Oregon. Municipal loans include general obligations, revenue bonds and assessment bonds via private placement.

Installment Loans. Installment loans are primarily to individuals, are typically secured by the financed assets, generally have terms of two to five years and bear interest at fixed rates. These loans usually are secured by motor vehicles or other personal assets and in some instances are unsecured. The primary risk of consumer lending relates to the personal circumstances of the borrower.

Letters of Credit. We issue letters of credit in the ordinary course of our business. We apply the same credit standards to these commitments as we do to all of our lending activities and we include these commitments in our lending risk evaluations. Our exposure to credit loss under letters of credit is represented by the amount of these commitments. We generally seek collateral, such as real estate, inventory, accounts receivable or other business assets, when issuing letters of credit.

Investments

In addition to loans, we may make other investments primarily in obligations of the United States, obligations guaranteed as to principal and interest by the United States or other U.S. government agency, obligations of state and municipal subdivisions, corporate securities and other taxable and tax-free securities. No investment in any of those instruments may exceed any applicable limitation imposed by law or regulation. Our Asset/Liability Committee reviews the investment portfolio on an ongoing basis in order to ensure that the investments conform to the Bank's policy as set by the Board of Directors.

Asset and Liability Management

The Asset/Liability Committee oversees our assets and liabilities and strives to provide a stable, optimized net interest margin, adequate liquidity and a profitable after-tax return on assets and return on equity. The committee addresses various areas of risk facing us and develops a strategy to control risk. The committee conducts these management functions within the framework of written asset/liability management, liquidity risk, interest rate risk, and investment policies that we have adopted. The committee attempts to maintain a balanced position between rate sensitive assets and rate sensitive liabilities. For additional information, see "Management and Corporate Governance—Committees—Asset/Liability Management Committee."

Deposit Services

The Bank offers a full range of commercial and private banking products and services, including a broad array of deposit products, services and channels. Products include savings accounts, checking and NOW accounts, money market deposit accounts, and certificates of deposit and IRAs. For our commercial customers, we offer Treasury Management products, including remote deposit capture and online personal and business services. We also work with public entities to structure individual deposit solutions tailored to the entities' needs. Customers may choose to interact with us in person at our branch locations, via our ATM, by telephone and via the internet or other web-based channels. We intend to continue to leverage our shareholder base and their related entities into a source of core deposits. The primary sources of deposits are residents, businesses, public entities, and employees located in our primary service area. We obtain these deposits through personal solicitation by its officers and directors, direct mail solicitations and advertisements published in the local media.

Other Banking Services

Other banking services include cashier's checks, direct deposit, night bank, bank-by-mail, remote deposit capture, online banking, mobile banking, drive-up banking, online cash management for businesses, automated teller machine cards and debit cards. We also offer credit card and merchant card services.

Competition

We face a high degree of competition. In our market areas, there are numerous small banks and several larger national and regional financial banking groups. We also compete with insurance companies, savings and loan associations, credit unions, leasing companies, mortgage companies, and other financial service providers. Many of these competitors have capital resources and legal lending limits substantially in excess of our capital resources and legal lending limits.

Nevertheless, we believe that we have been able to effectively distinguish ourselves as a "local" community bank and compete by emphasizing customer service and responsive decision-making. We focus on establishing long-term customer relationships and loyalty while providing products and services designed to meet the specific needs of customers. We compete for loans and deposits principally based on the availability and quality of products and services provided, excellence in our employees and in the customer service they provide, competitive rates and fees, having a variety of channels with which our customers can interact with the Bank, and by providing focused solutions to our customers' financial needs.

We believe that the current environment provides significant opportunities for us in the marketplace.

In order to compete with other financial service providers, we also rely upon local community involvement. We strive to have individuals who live in the communities and markets that we serve as members of our board of directors.

We also face competition for our personnel. We compete for personnel by emphasizing our client service culture, offering our employees a platform upon which they can grow and offering competitive compensation.

Legal Proceedings

We are from time-to-time parties to various legal actions arising in the normal course of business. We do not believe that there are any proceedings threatened or pending against us which, if determined adversely, would have a material adverse effect on our financial condition or results of operations.

Employees

As of December 31, 2020, we had 265 full-time equivalent employees. We are not a party to any collective bargaining agreement with our employees. We consider our relationship with our employees to be good.

Information on Website

Information on our Internet website is not part of this Disclosure Statement and potential investors should not rely on that information in deciding whether to tender the Shares in the Offer.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This discussion presents management's analysis of the consolidated financial condition and results of operations of Cashmere as of and for each of the years in the three-year period ended December 31, 2020. This discussion is designed to provide shareholders with a more comprehensive review of the operating results and financial position than could be obtained from an examination of the financial statements alone. The discussion should be read in conjunction with the consolidated financial statements of Cashmere and the notes related thereto which appear elsewhere in this Disclosure Statement.

Critical Accounting Policies

Cashmere's consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States. The financial information contained within these statements is, to a significant extent, financial information that is based on approximate measures of the financial effects of transactions and events that have already occurred. Based on its consideration of accounting policies that involve the most complex and subjective decisions and assessments, Cashmere management has identified its most critical accounting policy to be that related to the allowance for loan losses. Cashmere's allowance for loan losses methodology incorporates a variety of risk considerations, both quantitative and qualitative, in establishing an allowance for loan losses that management believes is appropriate at each reporting date. Although management believes the level of the allowance as of December 31, 2020, December 31, 2019 and December 31, 2018 was adequate to absorb losses inherent in the loan portfolio, a decline in the local economy or other adverse factors may result in increasing losses that cannot reasonably be predicted at this time. See the portion of this Management's Discussion and Analysis section entitled "Financial Condition—Allowance For Loan Losses."

As of and for the Year Ended December 31, 2020 Compared to the Years Ended December 31, 2019 and December 31, 2018

General

Cashmere's primary source of income is from the interest earned on its loans and investments and its primary area of expense is the interest paid on deposits, borrowings and salaries and benefits.

At December 31, 2020, Cashmere had approximately $1,994,288,000 in total assets, $937,240,000 in net loans, $1,719,971,000 in total deposits and $238,678,000 in shareholders' equity. At December 31, 2019, Cashmere had approximately $1,651,499,000 in total assets, $907,353,000 in net loans, $1,423,347,000 in total deposits and $205,404,000 in shareholders' equity. At December 31, 2018, Cashmere had approximately $1,520,773,000 in total assets, $965,320,000 in net loans, $1,314,877,000 total deposits and $187,503,000 in shareholders' equity.

For the year ended December 31, 2020, Cashmere realized net income of $25,521,000 or $6.43 per basic common share and $6.42 per diluted common share compared to net income of $23,396,000 or $5.70 per basic common share and $5.69 per diluted common share for 2019. The $2,125,000 increase in net income for 2020 compared to 2019 was due to increasing non-interest income especially as it related to mortgage loan originations, gain on sales of securities and debit card interchange income. Non-interest income increased from $14,781,000 in 2019 to $21,016,000 in 2020. Income from mortgage banking operations increased to $7,621,000 in 2020 from $3,390,000 in 2019. Income from gain on sales of securities increased to $2,520,000 from $772,000. Net interchange income increased to $2,246,000 in 2020 versus $1,549,000 in 2019.

For the year ended December 31, 2019, Cashmere realized net income of $23,396,000 or $5.70 per basic common share and $5.69 per diluted common share. Comparison of net income between the years ended December 31, 2019 and December 31, 2018 yields an increase in net income of $1,608,000. The increased income in 2019 as compared to 2018 was attributed to an increase in net interest income and non-interest income. The $2,388,000 increase in net interest income in 2019 as compared to 2018 was primarily related to an increase in loan and lease interest. The $2,844,000 increase in noninterest income in 2019 as compared to 2018 was primarily due to increased income from mortgage banking of $1,160,000 and increased gain on sales of securities of $866,000.

The return on average equity for the years ended December 31, 2020, 2019 and 2018 was 11.59%, 11.55%, and 12.35%, respectively. The return on average assets for the same years was 1.41%, 1.49%, and 1.45%, respectively. The dividend payout ratio (dividends per share divided by net income per share) for those years was 52.9%, 22.8%, and 51.0%, respectively. The equity to assets ratio (average equity divided by average total assets) for those years was 11.97%, 12.44%, and 12.33%, respectively.

Results of Operations

Net Interest Income and Margin. Cashmere's earnings depend largely upon its net interest income, which is the difference between the income received from its loan portfolio and other interest-earning assets and the interest paid on deposits and other interest-bearing liabilities. The net interest income, when expressed as a percentage of average total interest-earning assets, is referred to as the net interest margin. Cashmere's net interest income is affected by the change in the level and the mix of interest-earning assets and interest-bearing liabilities, referred to as volume changes. Cashmere's net interest income is also affected by changes in the yields earned on interest-earning assets and rates paid on interest-bearing liabilities, referred to as rate changes. Interest rates charged on Cashmere's loans are affected principally by the demand for such loans, the supply of money available for lending purposes and competitive factors. Those factors are, in turn, affected by general economic conditions and other factors beyond Cashmere's control, such as federal economic policies, the general supply of money in the economy, legislative tax policies, governmental budgetary matters and the actions of the Federal Reserve Board. Interest rates on deposits are affected primarily by rates charged by competitors.

For the year ended December 31, 2020, net interest income totaled $46,725,000 compared to $47,467,000 for the year ended December 31, 2019. This represents a year-over-year decrease of $742,000, or 1.6%. Total interest income decreased $1,227,000 while interest expense decreased $485,000 in 2020 compared to 2019. For the year ended December 31, 2018, net interest income totaled $45,079,000. Year-over-year comparison of 2019 and 2018 notes an increase in net interest income in 2019 of $2,388,000, or 5.3%. Total interest income increased $4,618,000 while interest expense increased $2,230,000 in 2019 compared to 2018.

Interest income totaled $53,610,000 for the year ended December 31, 2020. This represented a decrease of $1,227,000, or 2.2%, compared to interest income of $54,837,000 in 2019. Interest income for the year ended December 31, 2018 totaled $45,079,000. The decrease in interest income year-over-year in 2020 compared to 2019 was primarily due to changes in the interest rate environment. The average yield on interest-earning assets decreased to 3.11% for the year ended December 31, 2020 down from 3.64% and 3.48% for the years ended December 31, 2019 and 2018, respectively.

Interest expense totaled $6,885,000 for the year ended December 31, 2020. This represented a decrease of $485,000, or 6.6%, compared to interest expense of $7,370,000 in 2019. Interest-bearing liabilities increased $205,150,000 in 2020 over 2019. The cost of funds decreased to 0.55% for the year ended December 31, 2020 from 0.66% and 0.47% for the years ended December 31, 2019 and 2018, respectively.

The net interest margins for the years ended December 31, 2020, 2019 and 2018 were 2.71%, 3.15% and 3.13%, respectively. The net interest spread is the difference between the yield on average interest-earning assets and the cost of average interest-bearing liabilities. The net interest spread is an indication of the ability of Cashmere to manage rates received on loans and investments and rates paid on deposits and borrowings in a competitive and changing interest rate environment. For the year ended December 31, 2020, Cashmere's net interest spread was 2.56% compared to 2.98% for the same period in 2019. The decrease in net interest spread for the year ended December 31, 2020 resulted from decreasing interest rates on loans, investment securities and overnight funds. For the year ended December 31, 2018 Cashmere's net interest spread was 3.01%.

For the year ended December 31, 2020, the yield on average interest-earning assets decreased to 3.11%, or 53 basis points, from 3.64% for 2019. The year-over-year comparison in 2019 and 2018 resulted in an increase in yield on average interest-earning assets to 3.64% in 2019 from 3.48% in 2018. Cost of interest-bearing liabilities for the year ended December 31, 2020 was 0.55% versus 0.66% in 2019 and 0.47% in 2018. In 2018 the interest rate environment was methodically increasing with four 25 basis point increases to the Prime Rate. In 2019, there were three 25 basis point interest rate cuts, and in 2020 there was a 50 basis point cut and a 100 basis point cut in response to economic concerns brought on by COVID-19. The rates earned on assets and paid on liabilities tend to follow the direction of the Prime Rate.

The following table shows Cashmere's average balances of assets, liabilities and shareholders' equity; the amount of interest income and interest expense; the average yield or rate for each category of interest-earning assets and interest-bearing liabilities; and the net interest spread and the net interest margin for the periods indicated:

	For the Years Ended December 31,								
	2020			2019			2018		
	Average Balance	Interest Income/ Expense	Average Rate/Yield (1)	Average Balance	Interest Income/ Expense	Average Rate/Yield (1)	Average Balance	Interest Income/ Expense	Average Rate/Yield (1)
Assets									
Interest-earning assets:									
Loans (1)	$ 953,266,000	$38,119,000	4.00%	$ 971,554,000	$40,465,000	4.16%	$ 933,463,000	$36,883,000	3.95%
Investment Securities -taxable	456,856,000	9,368,000	2.05%	285,318,000	7,873,000	2.76%	255,874,000	6,416,000	2.51%
Investment Securities - tax exempt	204,454,000	5,711,000	2.79%	170,166,000	4,913,000	2.89%	223,671,000	6,395,000	2.86%
Correspondent banks	98,021,000	382,000	0.39%	69,373,000	1,413,000	2.04%	20,946,000	450,000	2.15%
Fed funds sold	9,737,000	30,000	0.31%	9,122,000	174,000	1.91%	7,925,000	75,000	0.95%
Total interest-earning assets	$1,722,334,000	$53,610,000	3.11%	$ 1,505,533,000	$54,838,000	3.64%	$1,441,879,000	$50,219,000	3.48%
Noninterest-earning assets									
Cash and due from banks	21,600,000			16,769,000			9,121,000		
Other assets	70,631,000			52,392,000			50,913,000		
Total Assets	$1,814,565,000			$ 1,574,694,000			$1,501,913,000		
Liabilities and Stockholders' Equity									
Interest-bearing liabilities									
Interest-bearing demand	$ 300,827,000	$ 938,000	0.31%	$ 256,119,000	$ 1,188,000	0.46%	$ 245,275,000	$ 593,000	0.24%
Money market	221,026,000	803,000	0.36%	197,392,000	1,039,000	0.53%	208,411,000	740,000	0.36%
Savings	463,556,000	475,000	0.10%	409,696,000	770,000	0.19%	402,579,000	682,000	0.17%
Time deposits	250,228,000	4,631,000	1.85%	241,438,000	4,337,000	1.80%	225,350,000	2,878,000	1.28%
Repurchase agreements	13,759,000	38,000	0.28%	7,989,000	35,000	0.44%	6,854,000	26,000	0.38%
Borrowings	-	-	-	51,000	1,000	1.96%	1,406,000	221,000	15.72%
Total interest-bearing liabilities	1,249,396,000	6,885,000	0.55%	1,112,685,000	7,370,000	0.66%	1,089,875,000	5,140,000	0.47%
Noninterest-bearing liabilities									
Demand deposits	328,652,000			247,986,000			226,208,000		
Other liabilities	16,353,000			11,522,000			9,430,000		
Stockholders' equity	220,164,000			202,501,000			176,400,000		
Total liabilities and stockholders' equity	$1,814,565,000			$ 1,574,694,000			$1,501,913,000		
Net Interest Income		$46,725,000			$47,468,000			$45,079,000	
Net Interest Spread(2)		2.56%			2.98%			3.01%	
Net Interest Margin (3)		2.71%			3.15%			3.13%	

(1) Nonaccrual loans have been included in the average balances for computation purposes, but the foregone interest of such loans is excluded.
(2) Represents the weighted average yield on interest-earning assets less the weighted average cost of interest-bearing liabilities.
(3) Represents the net interest income (before provision for credit losses) as a percentage of average interest-earning assets.

The following table sets forth, for the periods indicated, the dollar amount of changes in interest earned and paid for interest-earning assets and interest-bearing liabilities and the amount of change attributable to changes in average daily balances (volume) or changes in interest rates (rate). The variances attributable to both the volume and rate changes have been allocated in proportion to the relationship of the absolute dollar amount of the changes in each:

Rate/Volume Analysis of Net Interest Income

	Year Ended December 31, 2020 vs 2019		
	Increases (Decreases) Due to Change In		
	Volume	Rate	Total
Increase (decrease) in interest income:			
Loans	$ (762,000)	$ (1,584,000)	$ (2,346,000)
Investment securities - taxable	4,734,000	(3,239,000)	1,495,000
Investment securities - tax exempt	989,000	(191,000)	798,000
Correspondent banks	584,000	(1,615,000)	(1,031,000)
Fed funds sold	12,000	(156,000)	(144,000)
Total interest income	5,557,000	(6,785,000)	(1,228,000)
(Increase) decrease in interest expense:			
Interest-bearing demand	207,000	(457,000)	(250,000)
Money market	124,000	(360,000)	(236,000)
Savings	101,000	(396,000)	(295,000)
Time certificates of deposit	158,000	136,000	294,000
Repurchase agreements	25,000	(22,000)	3,000
Other borrowings	(1,000)	-	(1,000)
Total interest expense	614,000	(1,099,000)	(485,000)
Net interest income differential	$ 4,943,000	$ (5,686,000)	$ (743,000)

	Year Ended December 31, 2019 vs 2018		
	Increases (Decreases) Due to Change In		
	Volume	Rate	Total
Increase (decrease) in interest income:			
Loans	$ 1,505,000	$ 2,077,000	$ 3,582,000
Investment securities - taxable	738,000	719,000	1,457,000
Investment securities - tax exempt	(1,530,000)	48,000	(1,482,000)
Correspondent banks	1,040,000	(77,000)	963,000
Fed funds sold	11,000	88,000	99,000
Total interest income	1,764,000	2,855,000	4,619,000
(Increase) decrease in interest expense:			
Interest-bearing demand	26,000	569,000	595,000
Money market	(39,000)	338,000	299,000
Savings	12,000	76,000	88,000
Time certificates of deposit	205,000	1,254,000	1,459,000
Repurchase agreements	4,000	5,000	9,000
Other borrowings	(213,000)	(7,000)	(220,000)
Total interest expense	(5,000)	2,235,000	2,230,000
Net interest income differential	$ 1,759,000	$ 620,000	$ 2,389,000

Provision for Credit Losses. Credit risk is inherent in the business of making loans. Cashmere sets aside an allowance for loan losses through charges to net income. The charges are shown on the income statements as a provision for credit losses, and specifically identifiable and quantifiable losses are immediately charged off against the allowance. The periodic provision for credit loss expense is a reflection of the needed balance in the allowance for loan losses. The procedures for monitoring the adequacy of the allowance, as well as detailed information concerning the allowance itself, are included below under “Allowance for Loan Losses.” Management believes that Cashmere maintained adequate balances of allowance for loan losses at December 31, 2020, 2019 and 2018.

Noninterest Income. Cashmere’s noninterest income is generated from several sources. Noninterest income is derived primarily from service charges and fees on deposit accounts. Income related to card interchange income is also a strong contributor to noninterest income. Also included in noninterest income was investment center income, fiduciary income and gains or losses realized on the sale of investment securities.

For the year ended December 31, 2020, Cashmere recorded $21,016,000 in noninterest income compared to $14,781,000 for 2019 for an increase of $6,235,000. The increase was primarily due to an increase of $4,231,000 from mortgage banking operations and a $1,748,000 increase from gains on sales of securities.

Noninterest income for the year ended December 31, 2018 totaled $11,937,000. A year-over-year comparison of 2019 and 2018 notes an increase in noninterest income of $2,844,000. The increased income experienced for the year ended December 31, 2019 was primarily due to an increase from mortgage banking operations of $1,160,000 and an increase from gains on sales of securities of $866,000.

Noninterest Expense. Noninterest expense, which is comprised primarily of salaries and employee benefits, occupancy and equipment, data processing, professional services, FDIC insurance, other real estate owned (“OREO”) and other expenses, totaled $35,027,000 for the year ended December 31, 2020 compared to $34,249,000 for the year ended December 31, 2019. The $778,000 increase in noninterest expense in 2020 as compared to 2019 was due to increases in salaries and employee benefits of $1,224,000. The increase in salaries and employee benefits in 2020 as compared to 2019 was due to increases in salary expense of $709,000 from normal wage increases in addition to COVID-19 related bonuses. Commission expense increased $574,000 due primarily to an increase in mortgage banking activity.

Noninterest expense for the year ended December 31, 2019 totaled $34,249,000 compared to $31,503,000 for the year ended December 31, 2018. The $2,746,000 increase in noninterest expense was attributed to salaries and benefits increases of $1,722,000 and data processing increases of $510,000.

Noninterest expenses reflect the direct expenses and related administrative expenses associated with staffing, maintaining and operating the branch facilities. Cashmere’s ability to control noninterest expenses in relation to asset growth can be measured in terms of noninterest expenses as a percentage of average interest-earning assets. Noninterest expenses measured as a percentage of average interest-earning assets was 2.03%, 2.27% and 2.18% for the years ended December 31, 2020, 2019 and 2018, respectively.

The following table sets forth the breakdown of noninterest expense for the periods indicated:

	For the Years Ended December 31,					
	2020		2019		2018	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total
Salaries and employee benefits	$19,969,000	57.0%	$18,745,000	54.7%	$17,023,000	54.0%
Occupancy and equipment	2,997,000	8.6%	3,139,000	9.2%	3,005,000	9.5%
Data processing	4,636,000	13.2%	4,718,000	13.8%	4,208,000	13.4%
Product delivery	1,030,000	2.9%	1,008,000	2.9%	1,430,000	4.5%
Other operating expense	6,395,000	18.3%	6,639,000	19.4%	5,837,000	18.5%
Total noninterest expense	35,027,000	100.0%	34,249,000	100.0%	31,503,000	100.0%
As a percentage of average total interest-earning assets	2.03%		2.27%		2.18%	
Efficiency ratio	51.7%		55.0%		53.5%	

Market Risk/Interest Rate Risk Management

Market Risk. Market risk is the risk of loss from adverse changes in market prices and rates. Cashmere's market risk arises primarily from interest rate risk inherent in its lending, investment and deposit-taking activities. Cashmere's profitability is affected by fluctuations in interest rates. A sudden and substantial change in interest rates may adversely impact Cashmere's earnings to the extent that the interest rates borne by assets and liabilities do not change at the same speed, to the same extent or on the same basis. To that end, management actively monitors and manages its interest rate risk exposure.

Asset and liability management is concerned with the timing and magnitude of the repricing of assets and liabilities. It is the objective of Cashmere to control risks associated with interest rate movements. In general, management's strategy is to match asset and liability balances within maturity categories to limit Cashmere's exposure to earnings variations and variations in the value of assets and liabilities as interest rates change over time.

Interest Rate Risk. Interest rate risk occurs when assets and liabilities re-price at different times as interest rates change. Generally speaking, the rates of interest that Cashmere earns on its assets, and pays on its liabilities, are established contractually for specified periods of time. Market interest rates change over time and if a financial institution cannot quickly adapt to interest rate changes, it may be exposed to volatility in earnings. For instance, if Cashmere were to fund long-term fixed rate assets with short-term variable rate deposits, and interest rates were to rise over the term of the assets, the short-term variable rate deposits would rise in cost, adversely affecting net interest income. Similar risks exist when rate sensitive assets (for example, prime rate-based loans) are funded by longer-term fixed rate liabilities in a falling interest rate environment.

In the management of interest rate risk, Cashmere measures its interest rate sensitivity through the use of a simulation model. The model incorporates the contractual cash flows and re-pricing characteristics from each financial instrument, as well as certain management assumptions. The model also captures the estimated impacts of optionality and duration and their expected change due to changes in interest rates and the shape of the yield curve. Cashmere manages its interest rate risk through established policies and procedures. Cashmere measures both the potential short-term change in earnings and the long-term change in market value of equity on a monthly basis. Both measurements use immediate rate shocks that assume parallel shifts in interest rates up and down the yield curve in 100 basis point increments. There are nine scenarios comprised of rate changes up 400 basis points or down to 400 basis points. The objective of these various simulation scenarios is to optimize the risk/reward equation for Cashmere's future earnings and capital. Based upon the results of these various simulations and evaluations, Cashmere is positioned to be moderately asset sensitive, with earnings increasing in a rising rate environment. If interest rates were to increase by 100 basis points on an immediate, parallel and sustained basis, Cashmere's net interest income would decrease by $2,050,000 or 4.2% over the next 12 months. The following table reflects Cashmere's estimated net interest income sensitivity as of December 31, 2020:

	Increase/(Decrease) In Estimated Net Interest Income	
	Amount	Percent
	(Dollars in Thousands)	
Change in Interest Rates (basis points)		
+400	$ 7,657.00	15.69%
+300	5,897.00	12.08%
+200	4,154.00	8.51%
+100	2,050.00	4.20%
+0	-	0.00%
-100	(1,992.00)	-4.08%
-200	(2,897.00)	-5.93%
-300	(3,582.00)	-7.34%
-400	(3,772.00)	-7.73%

Liquidity and Capital Resources

Liquidity. Liquidity is Cashmere's ability to maintain sufficient cash flow to meet deposit withdrawals and loan demands and to take advantage of investment opportunities as they arise. Cashmere's principal sources of liquidity have been growth in deposits, proceeds from the maturity of securities, and repayments from loans. To supplement its primary sources of liquidity, Cashmere maintains contingent funding sources, which include unsecured borrowing arrangements with its correspondent financial institutions. At December 31, 2020, Cashmere had a total borrowing capacity of $74,000,000 none of which was used at December 31, 2020. In addition to available credit lines at correspondent financial institutions, Cashmere also has a borrowing arrangement with the Federal Home Loan Bank ("FHLB"). Cashmere has a blanket lien arrangement for 45% of its assets. As of December 31, 2020, Cashmere's maximum available for funding according to its policy was $897,429,000.

Capital Resources. Shareholders' equity as of December 31, 2020, 2019 and 2018 was $238,678,000, $205,404,000 and $187,503,000, respectively. The increase in shareholders' equity over the aforementioned periods was primarily a result of earnings from bank operations in combination with a significant rise in unrealized gains on available for sale securities. Cashmere is committed to maintaining capital at a level sufficient to assure shareholders, customers and regulators that Cashmere is financially sound and able to support its growth from retained earnings. Cashmere is subject to risk-based capital regulations adopted by the federal banking regulators. These guidelines are used to evaluate capital adequacy and are based on an institution's asset risk profile and off-balance sheet exposure. The risk-based capital guidelines assign risk weightings to assets both on and off-balance sheet and place increased emphasis on common equity.

Current risk-based regulatory capital standards require banks and bank holding companies that have opted into the Community Bank Leverage Ratio framework to maintain a ratio of Tier 1 capital to average total assets (leverage ratio) of at least 4.00%

Under these regulations, a bank is considered "well capitalized" if the institution has a leverage ratio of 5.0% or greater, and is not subject to any order or written directive by any such regulatory authority to meet and maintain a specific capital level for any capital measure. The following table provides the capital ratios for Cashmere as of the dates indicated, along with the applicable regulatory capital requirements:

	Ratio at December 31, 2020	Ratio at December 31, 2019	Minimum Requirement for "Adequately Capitalized" Institution	Minimum Requirement for "Well-Capitalized" Institution
Leverage Ratio	10.53%	11.66%	4.00%	5.00%

Impact of Inflation

The impact of inflation on a financial institution differs significantly from such impact on other companies. Banks, as financial intermediaries, have assets and liabilities that tend to move in concert with inflation both as to interest rates and value. A bank can reduce the impact of inflation if it can manage its interest rate sensitivity gap. Cashmere attempts to structure its mix of financial instruments and manage its interest rate sensitivity gap in order to minimize the potential adverse effects of inflation or other market forces on its net interest income and therefore its earnings and capital. See the portion of this Management's Discussion and Analysis section entitled "Market Risk/Interest Rate Risk Management." Inflation has been moderate for the last several years and has had little or no effect on the financial condition and results of operations of Cashmere during the periods covered in this Disclosure Statement.

Financial Condition

Summary. Total assets were $1,994,288,000 as of December 31, 2020, compared to $1,651,499,000 and $1,520,773,000 as of December 31, 2019 and 2018, respectively. Total assets increased from year-end 2019 to year-end 2020 by $342,789,000, or 20.8%, and $130,726,000, or 8.6%, from year-end 2018 to year-end 2019. Total loans, net of allowance for loan losses, ended at $937,240,000 as of December 31, 2020, compared to $907,353,000 and $965,320,000 as of December 31, 2019 and 2018, respectively. This represents an increase from year-end 2019 to year-end 2020 and a decrease from year-end 2018 to year-end 2019 of $29,887,000 or 3.3%, and $57,967,000, or negative 6.0%, respectively. Total deposits were $1,719,971,000 as of December 31, 2020, compared to $1,423,347,000 and $1,314,877,000 as of December 31, 2019 and 2018, respectively. The year-over-year increase in total deposits as of December 31, 2019 to 2020 and December 31, 2018 to 2019 was $296,624,000, or 20.8%, and $108,470,000, or 8.2%, respectively.

Investment Portfolio. The main objectives of Cashmere's investment portfolio are to support a sufficient level of liquidity while providing means to manage interest rate risk, generate an adequate level of interest income without taking undue risks and provide collateral for municipal pledging requirements. The portfolio of investment securities consists primarily of U.S. government agencies, mortgage-backed securities, municipal and corporate securities. Cashmere's portfolio is comprised entirely of available-for-sale securities.

The following table summarizes the amortized cost, fair value and distribution of Cashmere's investment securities as of the dates indicated:

	As of December 31,					
	2020		2019		2018	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(Dollars in Thousands)					
Available for sale						
Money market funds	$ -	$ -	$ -	$ -	$ 22	$ 22
U.S. Treasury securities	-	-	-	-	8,353	8,348
State and municipal securities	394,850	425,980	234,612	242,121	207,140	206,641
Collateralized mortgage obligations	240,546	243,372	205,918	206,408	155,126	152,546
Mortgage-backed securities	101,637	102,916	51,951	52,839	53,371	52,968
Asset-backed securities	65,141	64,497	41,461	40,719	19,550	19,427
Corporate securities	19,500	19,562	-	-	-	-
Total	$ 821,674	$ 856,327	$ 533,942	$ 542,087	$ 443,562	$ 439,952

At December 31, 2020 the fair value of securities available for sale totaled $856,327,000, an increase of $314,240,000, or 58.0%, from $542,087,000 at December 31, 2019. The increase in securities from December 31, 2019 to December 31, 2020 was primarily due to deposit growth attained during 2020. In 2020, investment purchases totaled a combined $410,833,000, security sales, calls, maturities and portfolio paydowns totaled a combined $119,059,000 and amortization and accretion totaled $6,562,000. The fair value of securities available for sale as of December 31, 2018 was $439,952,000. The increase in securities from year-end 2018 to year-end 2019 was $102,135,000, or 23.2%, and was primarily due to purchases of state and municipal securities, mortgage-backed securities and asset-backed securities.

The available-for-sale securities portfolio had a net unrealized gain of $34,653,000 at December 31, 2020 compared to net unrealized gain of $8,145,000 at December 31, 2019 and an unrealized loss of $3,610,000 at December 31, 2018. The net unrealized gain or loss on available-for-sale securities is excluded from net income and reported as a separate component of accumulated other comprehensive income or loss included in shareholders' equity.

On an annual basis, Cashmere makes an assessment to determine whether there has been any credit or economic events to indicate that a security with an unrealized loss in the investment portfolio is impaired on an other-than-temporary basis. Cashmere considers many factors including the severity and duration of the impairment, the intent and ability for Cashmere to hold the security for a period of time sufficient for full recovery in value, recent downgrades in external credit ratings and other current events specific to the issuer or industry. Unrealized losses are generally due to changes in interest rates and, as such, are considered to be temporary by Cashmere.

The following table summarizes, as of December 31, 2020, the maturity characteristics of the investment portfolio. Expected remaining maturities may differ from remaining contractual maturities because obligors may have the right to prepay certain obligations with or without penalties.

	Available for Sale	
	Amortized Cost	Fair Value
Due in one year or less	$ 12,735	$ 12,755
Due from one year to five years	31,309	32,432
Due from five years to ten years	160,084	166,033
Due after ten years	617,546	645,107
Total	$ 821,674	$ 856,327

Loan Portfolio. Cashmere's loan portfolio represents the largest single portion of invested assets, greater than the investment portfolio or any other asset placement category. The quality and diversification of Cashmere's loan portfolio are important considerations when reviewing Cashmere's results of operations.

Total loans, net of allowance for loan losses, increased to $937,240,000 as of December 31, 2020, compared to $907,353,000 and $965,320,000 as of December 31, 2019 and 2018, respectively. Total loans, net of allowance for loan losses, totaled $883,611,000 and $861,017,000 as of December 31, 2017 and 2016, respectively. The increase from year-end 2019 to year-end 2020 was primarily a result of Paycheck Protection Program (PPP) loans. As of December 31, 2020, PPP loans totaled $54,235,000. PPP loans were established by the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). PPP loans were implemented by the Small Business Administration (SBA) in an effort to assist small businesses adversely affected by the economic impact of the COVID-19 pandemic.

The following table sets forth the composition of Cashmere's loan portfolio (excluding loans held for sale) as of the dates indicated:

	December 31,									
	2020		2019		2018		2017		2016	
	Amount	% of Loans	Amount	% of Loans	Amount	% of Loans	Amount	% of Loans	Amount	% of Loans
	(Dollars in Thousands)									
Commercial and agriculatural	$125,503	13.2%	$ 62,206	6.8%	$ 71,651	7.3%	$ 61,093	6.8%	$ 59,528	6.8%
Real estate:										
Residential 1-4 family	117,929	12.4%	152,301	16.6%	152,219	15.6%	143,913	16.1%	138,993	15.9%
Commercial	318,832	33.5%	329,479	35.9%	335,751	34.4%	329,329	36.8%	315,515	36.2%
Construction	73,497	7.7%	62,531	6.8%	69,283	7.1%	46,794	5.2%	47,597	5.5%
Farmland	8,657	0.9%	10,682	1.2%	11,245	1.2%	9,773	1.1%	10,362	1.2%
Municipal	94,730	10.0%	85,967	9.4%	118,633	12.1%	113,622	12.7%	111,880	12.8%
Consumer	18,749	2.0%	18,151	2.0%	20,965	2.1%	19,243	2.2%	20,382	2.3%
Dealer contracts	187,152	19.7%	189,612	20.6%	188,334	19.3%	162,795	18.2%	160,960	18.5%
Leases	1,748	0.2%	2,526	0.3%	3,365	0.3%	2,155	0.2%	1,153	0.1%
Credit Card	4,173	0.4%	5,086	0.6%	5,173	0.5%	5,533	0.6%	5,684	0.7%
Total gross loans	950,970		918,541		976,619		894,250		872,054	
Less allowance for loan losses	13,730		11,188		11,299		10,639		11,037	
Net loans, held for investment	$937,240		$907,353		$965,320		$883,611		$861,017	

Nonperforming Assets. Nonperforming assets are comprised of loans on nonaccrual status, loans 90 days or more past due but not on nonaccrual status, loans restructured where the terms of repayment have been renegotiated resulting in a reduction or deferral of interest or principal (nonaccrual status), and OREO. Management generally places loans on nonaccrual status when they become 90 days past due, unless they are both fully secured and in process of collection. Loans may be restructured by management when a borrower has experienced some change in financial status causing an inability to meet the original repayment terms, where management believes the borrower will eventually overcome those circumstances and repay the loan in full. OREO consists of real property acquired through foreclosure or similar means that management intends to offer for sale.

Management's classification of a loan as nonaccrual or restructured is an indication that there is reasonable doubt as to the full collectability of principal or interest on the loan. If a loan is placed on non-accrual Cashmere stops recognizing income from the interest on the loan and reverses any uncollected interest that had been accrued but unpaid. If the loan deteriorates further due to a borrower's bankruptcy or similar financial problems, unsuccessful collection efforts or a loss classification by regulators or auditors, the remaining balance of the loan is then charged off. These loans may or may not be collateralized, but collection efforts are continuously pursued. Troubled-debt restructures as of December 31, 2020, 2019 and 2018 were booked in an accrual status and remain in an accrual status. The loans were placed in troubled debt status, not because of payment delinquencies, rather due to borrowers exhibiting signs of financial difficulty, including higher than policy debt to income and debts were renewed at rates deemed unavailable as Cashmere felt the borrower likely would not qualify at another institution.

On March 13, 2020, the FDIC issued a statement titled *Working with Customers Affected by the Coronavirus.* On April 7, 2020 the FDIC issued further interagency guidance titled *Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers Affected by the Coronavirus (Revised).* The Bank worked with affected borrowers and offered payment deferments or interest only payments. During 2020, the Bank accommodated 494 loans totaling $102.7 million. At December 31, 2020, there were 49 accommodated loans remaining totaling $2.7 million. Section 4013 of the CARES Act provides that a qualified loan modification is exempt by law from classification as a TDR as defined by GAAP. Section 4013 was effective from the period beginning March 1, 2020 until the earlier of December 31, 2020 or the date that is 60 days after the date on which the national emergency concerning the COVID-19 outbreak declared by the President of the United States under the National Emergencies Act terminates. Section 541 of the Consolidated Appropriations Act, 2021 extended Section 4013 relief until January 1, 2022.

Nonperforming loans as a percentage of total loans were 0.12%, 0.08%, 0.03%, 0.02% and 0.02% as of December 31, 2020, 2019, 2018, 2017 and 2016, respectively. Cashmere had nonperforming loans totaling $1,147,000 as of December 31, 2020, an increase from $766,000 as of December 31, 2019. Non-performing loans as of December 31, 2018, 2017 and 2016 totaled $253,000, $170,000 and $166,000, respectively. Nonperforming assets consist of nonperforming loans and OREO. When appropriate or necessary to protect Cashmere's interest, real estate taken as collateral on a loan may be taken by Cashmere through foreclosure or a deed in lieu of foreclosure. Real property acquired in this manner is known as OREO. The OREO is carried on Cashmere's financial statements as an asset, at fair value less estimated costs to sell. Cashmere periodically revalues the OREO properties and charges other expenses for any further valuation adjustments.

At least quarterly, or more frequently if warranted, loans which have been identified as impaired are reviewed to determine the fair value of the real estate collateral, and Cashmere charges off the portions of such loans considered uncollectible based upon these analyses.

The following table provides information with respect to the components of Cashmere's nonperforming assets as of the dates indicated:

	December 31,				
	2020	2019	2018	2017	2016
	(Dollars in Thousands)				
Nonaccrual loans, not restructured	1,143	764	250	146	166
Nonperforming troubled debt restructurings	-	-	-	-	-
Accruing loans past due 90 days or more	4	2	3	24	-
Total nonperforming loans (NPLs)	1,147	766	253	170	166
Other real estate owned and foreclosed assets	-	-	-	-	66
Total nonperforming assets (NPAs)	1,147	766	253	170	232
NPLs to loans, held for investment, net of deferred costs and fees	0.12%	0.08%	0.03%	0.02%	0.02%
NPAs to total assets	0.06%	0.05%	0.02%	0.01%	0.02%

If nonaccrual loans outstanding during 2020, 2019 and 2018 had been current in accordance with their original terms, an immaterial amount of interest income would have been recorded during 2020, 2019 and 2018, respectively. There was no income recognized on nonaccrual loans prior to impairment during the years ended December 31, 2020, 2019 and 2018.

Allowance for Loan Losses. The allowance for loan losses reflects management's judgment of the level of allowance adequate to provide for probable incurred losses inherent in the loan portfolio as of the balance sheet date. On a quarterly basis, Cashmere assesses the overall adequacy of the allowance for loan losses, utilizing a disciplined and systematic approach which includes an individual analysis of specific categories of loans, specific categories of classified loans and individual classified loans. The adequacy of the allowance is determinable only on an approximate basis, since estimates as to the magnitude and timing of loan losses are not predictable because of the impact of external events.

The allowance for loan losses, which is charged against operating expense, is based upon relevant information about the ability of borrowers to service their debt such as current financial information, historical payment experience, collateral adequacy and credit documentation plus an amount for other factors that, in management's judgment, deserve recognition in estimating probable incurred loan losses. These factors include, but are not limited to, historical charge-offs; estimated future loss in all significant loans; credit concentrations; certain classes or composition of loans; trends in the portfolio; delinquencies and nonaccruals; economic factors; and the experience of management.

The table below presents the activity in the allowance for loan losses by class of loans as of the dates indicated:

	Year Ended December 31,				
	2020	2019	2018	2017	2016
	(Dollars in Thousands)				
Balance, beginning of period	11,188	11,299	10,639	11,037	12,589
Loan charge-offs:					
Commercial and agricultural	301	553	288	179	864
Residential 1-4 Family	31	-	21	-	200
Commercial, Construction and Farmland	-	-	-	-	135
Municipal	-	-	-	-	-
Consumer and Other	910	946	872	705	546
Total loan charge-offs	1,242	1,499	1,181	884	1,745
Loan recoveries:					
Commercial and agricultural	108	221	200	231	448
Residential 1-4 Family	-	-	21	-	44
Commercial, Construction and Farmland	-	-	-	24	175
Municipal	-	-	-	-	-
Consumer and Other	502	458	594	231	260
Total loan recoveries	610	679	815	486	927
Net loan recoveries (charge-offs)	(632)	(820)	(366)	(398)	(818)
Provision (credit) for loan losses	3,174	709	1,026	-	(734)
Balance, end of period	13,730	11,188	11,299	10,639	11,037

Cashmere continuously monitors the quality of loans held in its portfolio and maintains an allowance for loan losses which management believes is sufficient to absorb losses inherent in the loan portfolio. The allowance for loan loss at December 31, 2020 was $13,730,000. This represents an increase of $2,542,000 from the allowance of $11,188,000 at December 31, 2019. The allowance for loan loss for the years ended December 31, 2018, 2017 and 2016 was $11,299,000, $10,639,000 and $11,037,000, respectively. The allowance represented 1.44%, 1.22%, 1.16%, 1.19% and 1.27% of total loans held in its portfolio for the years ended December 31, 2020, 2019, 2018, 2017 and 2016, respectively.

Management is committed to maintaining the allowance for loan losses at a level that is considered to be commensurate with estimated and known risks in the portfolio. Although the adequacy of the allowance is reviewed quarterly, management performs an ongoing assessment of the risks inherent in the portfolio. Real estate is the principal collateral for Cashmere's loans. As of December 31, 2020, management believed the allowance to be adequate based on its assessment of the estimated and known risks in the portfolio. However, no assurance can be given that economic conditions which adversely affect our service areas or other circumstances will not be reflected in increased provisions or credit losses in the future.

The following table provides a breakdown of the allowance for loan losses by category as of the dates indicated:

	At December 31,									
	2020		2019		2018		2017		2016	
	Allocation of the Allowance	% of Allocation to Total	Allocation of the Allowance	% of Allocation to Total	Allocation of the Allowance	% of Allocation to Total	Allocation of the Allowance	% of Allocation to Total	Allocation of the Allowance	% of Allocation to Total
	(Dollars in Thousands)									
Commercial and agricultural	1,507	11.0%	980	8.8%	1,077	9.5%	792	7.4%	895	8.1%
Residential 1-4 Family	1,025	7.5%	1,043	9.3%	1,136	10.1%	1,095	10.3%	1,110	10.1%
Commercial, Construction and Farmland	6,432	46.8%	5,123	45.8%	5,788	51.2%	5,421	51.0%	6,316	57.2%
Municipal	114	0.8%	96	0.9%	128	1.1%	120	1.1%	111	1.0%
Consumer and Other	3,784	27.6%	3,181	28.4%	3,170	28.1%	2,584	24.3%	2,576	23.3%
Unallocated	868	6.3%	765	6.8%	-	0.0%	627	5.9%	29	0.3%
Total	13,730	100.0%	11,188	100.0%	11,299	100.0%	10,639	100.0%	11,037	100.0%

Off-Balance Sheet Commitments. During the ordinary course of business, Cashmere will provide various forms of credit lines to meet the financing needs of its customers. These commitments to provide credit represent an obligation of Cashmere to its customers which is not represented in any form within the balance sheets of Cashmere. These commitments represent a credit risk to Cashmere. The effect on Cashmere's revenues, expenses, cash flows and liquidity from the unused portion of the commitments to provide credit cannot be reasonably predicted because there is no guarantee that the lines of credit will ever be used.

The following table shows the outstanding financial commitments whose contractual amount represents credit risk for the dates indicated:

	December 31,		
	2020	2019	2018
	(Dollars in Thousands)		
Commitments to extend credit	$ 219,570	$ 206,545	$ 180,096
Letters of credit	65	80	140
Total	$ 219,635	$ 206,625	$ 180,236

For more information regarding Cashmere's off-balance sheet arrangements, see Note 14 to Cashmere's audited consolidated financial statements located elsewhere herein.

Deposits. Deposits are Cashmere's primary source of funds. Total deposits as of December 31, 2020 were $1,719,971,000, an increase from $1,423,347,000 at December 31, 2019. For the year ended December 31, 2020, total deposits increased $296,624,000, or 20.8%. Deposit increases for the year ended December 31, 2019 totaled $108,470,000, to $1,423,347,000 from $1,314,877,000 as of December 31, 2018. The increase in deposit balances is centered primarily in demand, interest-bearing demand accounts and money market accounts.

For the year ended December 31, 2020, noninterest-bearing deposits increased 33.4%, or $91,474,000, to $365,645,000. At the same time, average NOW, savings and money market deposits increased $231,694,000, or 26.1%, to $1,121,111,000 at December 31, 2020 from $889,417,000 at December 31, 2019. Total average time deposits decreased $26,544,000 or 10.2 %, from $259,759,000 at December 31, 2019 to $233,215,000 at

December 31, 2020. The increase in average noninterest-bearing, NOW and money market deposits was primarily due to organic growth in Cashmere's primary markets.

The following table sets forth the scheduled maturities of Cashmere's time deposits in denominations of $100,000 or greater as of the date indicated:

	December 31, 2020 (Dollars in Thousands)		
	$250,000 or less	Greater than $250,000	Total
0 to 90 days	$ 26,974	$ 5,828	$ 32,802
91 to 365 days	63,118	14,081	77,199
1 year to 3 years	62,651	17,258	79,909
Over 3 years	32,580	10,725	43,305
Total	$ 185,323	$ 47,892	$ 233,215

Borrowings. Cashmere had $74,000,000 in unsecured lines of credit with correspondent financial institutions as of December 31, 2020. Cashmere had no borrowings on these lines of credit as of the year ended 2018.

Cashmere also has a borrowing arrangement with the FHLB that is secured by FHLB stock and a blanket lien on qualifying loan collateral. As of December 31, 2020, Cashmere's net availability under this arrangement was $897,429,000. There were no advances outstanding as of December 31, 2020.

MANAGEMENT AND CORPORATE GOVERNANCE

Current Senior Officers and Directors. Our senior officers and directors, their respective ages and positions as of December 31, 2020, are as follows:

Director	Director Since
Lyman Boyd (Chairman)	2000
John Doyle	2012
Keith Wiggins	2003
Greg Oakes	2014
Kris Loomis	2018
Mike Neff	2019
Krista Beck	2021

Officer	Position (Bank Tenure)
Greg Oakes	EVP/President and Chief Executive Officer (1983)
Mike Lundstrom	EVP/Chief Financial Officer (2018)
Steve Vradenburg	EVP/Chief Lending Officer (2003)
Jenny Pulver	EVP/Chief Retail Banking Officer (1985)
Sue Ozburn	EVP/Chief Information Officer (2005)

Board of Directors Composition and Compensation

Under our articles of incorporation and bylaws, the Board of Directors has the authority to determine the size of the Board. Currently, the Board of Directors consists of seven directors. A director holds office until the next annual meeting of shareholders and, thereafter, until his successor is elected and qualified; subject, however, to prior death, resignation, retirement, disqualification or removal from office.

For the calendar year 2021, directors who are not also executive officers receive director fees of $3,550 per month. Directors who are also executive officers receive no additional compensation for their role as directors. Each director is also covered by directors' and officers' liability insurance. Directors are also reimbursed for their actual out-of-pocket expenses incurred attending board or committee meetings.

Family Relationships

There are no family relationships between any directors or executive officers.

Indemnification

The Bank's bylaws provide that the Bank has the power to indemnify current or former directors, officers, employees and agents to the fullest extent provided under its articles of incorporation and under applicable Washington law.

The Bank's articles of incorporation provide that, to the fullest extent permitted by Washington law, the Bank's directors shall not be liable to the Bank or any of its shareholders for damages caused by a breach of fiduciary duty by such director.

The Washington Business Corporation Act authorizes the indemnification of directors and officers against liability incurred by reason of being a director or officer and against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement and reasonably incurred in connection with any action seeking to establish such liability, in the case of third-party claims, if the officer or director acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the corporation, and in the case of actions by or in the right of the corporation, if the officer or director acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the corporation and if such officer or director shall not have been adjudged liable to the corporation, unless a court otherwise determines. Indemnification is also authorized with respect to any criminal action or proceeding where the officer or director also had no reasonable cause to believe his conduct was unlawful.

Related Party Transactions

In the ordinary course of business, the Bank has transactions with directors, principal officers, their immediate families, and affiliated companies in which they are principal shareholders (commonly referred to as related parties), all of which have been, in the opinion of management, on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with outside parties.

The following table details the loan activity with related parties at December 31, 2020 and December 31, 2019 (amounts in thousands):

	2020	2019
Beginning balance	$18,195	$21,551
New loans or advances during period	15,898	11,131
Repayments during period	(13,953)	(14,487)
Aggregate amount outstanding	$20,140	$18,195
Loan commitments	$23,804	$19,888
Related party deposits	$8,760	$7,713

Interests of Directors, Executive Officers and Affiliates

Shares Outstanding. As of March 31, 2021, we had 3,972,304 shares outstanding.

Interests of Directors and Executive Officers. Members of our Board of Directors and executive officers beneficially own 63,546 Shares, or 1.60% of our fully diluted outstanding Shares. Our directors and executive officers have informed us that they do not currently intend to tender their Shares in the Offer. Purchases of Shares pursuant to the Offer will increase the percentage equity ownership of non-tendering Shareholders, including our directors, executive officers and affiliates.

Security Ownership of Certain Beneficial Owners and Management

The following table sets forth information with respect to the beneficial ownership of the common stock, as of March 31, 2021, by each person or entity known by us to beneficially own more than 5% of the outstanding shares of the common stock, by each of our directors, by each of our executive officers, and by all of our directors and executive officers as a group. The percentage of ownership prior to the Offer indicated below is based on the 3,972,304 Shares outstanding as of March 31, 2021. The percentage of ownership after to the Offer indicated below assumes that the Bank purchases all 340,000 Shares pursuant to the Offer, resulting in 3,632,304 Shares outstanding after consummation of the Offer. It also assumes that none of the shareholders listed tenders his, her or its Shares pursuant to the Offer. Except as indicated in the footnotes to this table, and subject to applicable community property laws, the persons listed in the table below have sole voting and investment power with respect to all shares of our common stock shown as beneficially owned by them.

		Shares beneficially owned		3,972,304	Shares beneficially ov	3,632,304.00
Beneficial Owners		Number of Shares	Percentage of Class		Number of shares	Percentage of Class
Lyman Boyd	Common	14,350	0.36%		14,350	0.40%
Kristine Loomis	Common	2,650	0.07%		2,650	0.07%
John Doyle	Common	6,100	0.15%		6,100	0.17%
Mike Neff	Common	2,855	0.07%		2,855	0.08%
Krista Beck	Common	100	0.00%		100	0.00%
Mike Lundstrom	Common	1,150	0.03%		1,150	0.03%
Greg Oakes	Common	23,700	0.60%		23,700	0.65%
Sue Ozburn	Common	410	0.01%		410	0.01%
Jenny Pulver	Common	350	0.01%		350	0.01%
Steve Vradenburg	Common	881	0.02%		881	0.02%
Keith Wiggins	Common	11,000	0.28%		11,000	0.30%
Executive Officers and		63,546	1.60%		63,546	1.75%
Directors as a group (11 persons)						

CERTAIN UNITED STATES FEDERAL INCOME TAX CONSEQUENCES

The following discussion is a summary of certain United States federal income tax consequences to our Shareholders of an exchange of Shares for cash pursuant to the Offer. Shareholders who do not participate in the Offer will not incur any United States federal income tax as a result of the exchange of Shares for cash by other Shareholders pursuant to the Offer. This discussion is general in nature and does not include all aspects of United States federal income taxation that may be relevant to a particular Shareholder in light of the Shareholder's particular circumstances (such as the effects of Section 451(b) of the Code), or to certain types of Shareholders subject to special treatment under United States federal income tax laws (such as insurance companies, tax-exempt organizations, governmental organizations, regulated investment companies, real estate investment trusts, "qualified foreign pension funds" as defined in Section 897(l)(2) of the Code and entities all of the interests of which are held by qualified foreign pension funds, United States Holders, as defined below, whose "functional currency" is not the United States dollar, partnerships or other entities treated as partnerships or pass-through entities for United States federal income tax purposes (or their investors or beneficiaries), grantor trusts, controlled foreign corporations, passive foreign investment companies, corporations that accumulate earnings to avoid U.S. federal income tax, persons holding Shares as part of a hedging, integrated, conversion or constructive sale transaction or a straddle, banks, financial institutions, brokers, dealers in securities or currencies, traders that elect to mark-to-market their securities, certain expatriates or former long-term residents of the United States or personal holding companies). In addition, the discussion does not consider the effect of any alternative minimum taxes or foreign, state, local or other tax laws, or any United States tax considerations (e.g., estate or gift tax) other than United States federal income tax considerations that may be applicable to particular Shareholders. Further, this summary assumes that Shareholders hold their Shares as "capital assets" (generally, property held for investment) within the meaning of Section 1221 of the Code and generally assumes that they did not receive their Shares through the exercise of employee stock options or otherwise as compensation.

This summary is based on the Code and applicable United States Treasury regulations, published rulings, administrative pronouncements and judicial decisions thereunder as of the date hereof, all of which are subject to change or differing interpretations at any time with possible retroactive effect. Any such change could affect the continuing validity of this discussion.

This discussion is not binding on the IRS, and we have not sought, nor will we seek, any ruling from the IRS with respect to the matters discussed below. There can be no assurance that the IRS will not take a different position concerning tax consequences of the sale of Shares to us pursuant to the Offer or that any such position would not be sustained.

As used herein, a "United States Holder" means a beneficial owner of Shares that is (1) an individual citizen or resident alien of the United States for United States federal income tax purposes, (2) a corporation (or other entity taxed as a corporation for United States federal income tax purposes) created or organized in or under the laws of the United States, any state thereof or the District of Columbia, (3) an estate the income of which is subject to United States federal income taxation regardless of its source, or (4) a trust if (a) the administration of the trust is subject to the primary supervision of a court within the United States and one or more United States persons (within the meaning of Section 7701(a)(30) of the Code) have the authority to control all substantial decisions of the trust or (b) it has a valid election in effect under applicable United States Treasury regulations to be treated as a United States person. As used herein, a "Non-United States Holder" means a beneficial owner of Shares that is neither a United States Holder nor a partnership or other entity classified as a partnership for United States federal income tax purposes. If a partnership or other entity treated as a partnership for United States federal income tax purposes holds Shares, the tax treatment of a partner or other owner will generally depend upon the status of such person and the activities of the partnership or other entity. A partnership holding Shares and partners in such partnership should consult their own tax advisors about the United States federal income tax consequences of an exchange of Shares for cash pursuant to the Offer.

Each Shareholder is advised to consult its own tax advisor to determine the tax consequences of the Offer under United States federal tax laws (including estate and gift tax laws), under the laws of any state, local or foreign taxing jurisdiction or under any applicable tax treaty.

Consequences to United States Holders.

Characterization of the Purchase. An exchange of Shares for cash pursuant to the Offer generally will be treated as either a taxable sale or exchange or as a taxable distribution with respect to such Shares.

A United States Holder's exchange of Shares for cash pursuant to the Offer will be treated as a sale or exchange of the Shares for United States federal income tax purposes pursuant to Section 302 of the Code if the exchange (1) results in a "complete termination" of the United States Holder's stock interest in us, (2) is a "substantially disproportionate" redemption with respect to the United States Holder, or (3) is "not essentially equivalent to a dividend" with respect to the United States Holder.

In determining whether any of these tests has been met, a United States Holder must take into account not only the stock that the United States Holder actually owns, but also the stock that it constructively owns within the meaning of Section 318 of the Code (as modified by Section 302(c) of the Code). Under these constructive ownership rules, a United States Holder will be considered to own those Shares owned, directly or indirectly, by certain members of the United States Holder's family and certain entities (such as corporations, partnerships, trusts and estates) in which the United States Holder has an equity interest, as well as Shares the United States Holder has an option to purchase. United States Holders should consult their own tax advisors with respect to the operation of these constructive ownership rules including with respect to the treatment of contingent options.

The purchase of a United States Holder's Shares by us in the Offer will result in a "complete termination" of the United States Holder's interest in our stock if either (1) all of the Shares actually and constructively owned by the United States Holder are exchanged for cash pursuant to the Offer or (2) all of the Shares actually owned by the United States Holder are exchanged for cash pursuant to the Offer and the United States Holder is eligible to waive, and effectively waives, the attribution of all Shares constructively owned by the United States Holder in accordance with the procedures described in Section 302(c)(2) of the Code. Generally, a United States Holder can only waive attribution of Shares owned by certain family members. A United States Holder may also satisfy the "complete termination" test if, in the same transaction, some of its Shares are purchased in the Offer and all of the remainder of its Shares are sold or otherwise transferred to a third party so that after the transaction the United States Holder no longer owns (actually or constructively) any Shares. United States Holders wishing to satisfy the "complete termination" test through waiver of attribution in accordance with the procedures described in Section 302(c)(2) of the Code should consult their own tax advisors concerning the mechanics and desirability of such a waiver.

The purchase of a United States Holder's Shares by us in the Offer will result in a "substantially disproportionate" redemption with respect to the United States Holder if, among other things, the percentage of our outstanding voting stock actually and constructively owned by the United States Holder immediately after the purchase (treating all Shares purchased by us pursuant to the Offer as not outstanding) is less than 80% of the percentage of our outstanding voting stock actually and constructively owned by the United States Holder immediately before the purchase (treating all Shares purchased by us pursuant to the Offer as outstanding) and immediately following the purchase the United States Holder actually and constructively owns less than 50% of the total combined voting power of our stock. United States Holders should consult their own tax advisors concerning the application of the "substantially disproportionate" test to their particular circumstances.

The purchase of a United States Holder's Shares by us in the Offer will generally be treated as "not essentially equivalent to a dividend" if it results in a meaningful reduction of the United States Holder's proportionate interest in us. Whether a United States Holder meets this test depends on the United States Holder's particular facts and circumstances. The IRS has indicated in published ratings that even a small reduction in the percentage interest of a Shareholder whose relative interest in a publicly held corporation is minimal (for example, an interest of 1% or less) and who exercises no control over corporate affairs should constitute a "meaningful reduction." United States Holders should consult their own tax advisors as to whether or not this test applies to them.

Each Shareholder should be aware that because proration is expected to occur in the Offer, even if all of our Shares actually and constructively owned by a Shareholder are tendered pursuant to the Offer, less than all of the Shares tendered are expected to be purchased by us in the Offer. Thus, proration may affect whether a United States Holder's exchange of Shares pursuant to the Offer will constitute a taxable sale or exchange pursuant to any of the three tests under Section 302 of the Code described above. Contemporaneous dispositions or acquisitions of Shares by a United States Holder or related individuals or entities may be deemed to be part of a single integrated transaction and may be taken into account in determining whether any of the three tests under Section 302 of the Code have been satisfied.

Due to the factual nature of these tests, United States Holders should consult their tax advisors to determine whether the purchase of their Shares in the Offer qualifies for sale or exchange treatment in their particular circumstances.

Sale or Exchange Treatment. If the receipt of cash by a United States Holder in exchange for Shares pursuant to the Offer is treated as a sale or exchange (as described above) of such Shares for United States federal income tax purposes pursuant to Section 302 of the Code (as described above), the United States Holder will recognize capital gain or loss equal to the difference between (1) the amount of cash received by the United States Holder for such Shares and (2) the United States Holder's "adjusted tax basis" for such Shares at the time of the sale. Generally, a United States Holder's adjusted tax basis for the Shares will be equal to the cost of the Shares to the United States Holder, decreased (but not below zero) by the amount of any previous distributions treated as a tax-free return of capital. This gain or loss will be characterized as long-term capital gain or loss if the United States Holder's holding period for the exchanged Shares exceeds one year as of the date we are treated as purchasing the Shares in the Offer for United States federal income tax purposes. A United States Holder that is an individual, trust or estate is generally eligible for a reduced rate of United States federal income tax on long-term capital gain. A United States Holder's ability to deduct capital losses may be limited. Generally, gain or loss must be determined separately for each block of Shares (generally, Shares acquired by a United States Holder at the same cost in a single transaction) we purchase in the Offer. A United States Holder may designate the order of priority in which Shares tendered are to be purchased in the event of proration as well as condition such tender on a minimum number of Shares being purchased. United States Holders should consult their own tax advisors concerning the mechanics and desirability of that designation or condition.

Distribution Treatment. If a United States Holder's receipt of cash attributable to an exchange of Shares pursuant to the Offer does not qualify for sale or exchange treatment as described above, then the full amount of cash received by the United States Holder in exchange for Shares under the Offer will be treated as a distribution to the United States Holder with respect to the United States Holder's Shares. Such distribution will be treated as ordinary dividend income to the United States Holder to the extent of such United States Holder's ratable share of our current and accumulated earnings and profits as determined under United States federal income tax principles. Provided certain holding period requirements and other conditions are satisfied, non-corporate United States Holders may be eligible for preferential rates on dividend income. To the extent that the amount of the distribution exceeds our current and accumulated earnings and profits, the excess first will be treated as a return of capital that will reduce the United States Holder's adjusted tax basis in the Shares exchanged in the Offer. Any amount remaining after the United States Holder's adjusted tax basis has been reduced to zero will be taxable to the United States Holder as capital gain realized on the sale or exchange of such Shares (as described above). A United States Holder's basis in Shares exchanged in the Offer (after any reduction as noted above) will be allocated to remaining Shares held by such United States Holder following the exchange. A dividend received by a corporate United States Holder may be (1) eligible for a dividends-received deduction (subject to applicable exceptions and limitations) and (2) subject to the "extraordinary dividend" provisions of Section 1059 of the Code. Generally, an "extraordinary dividend" is a dividend with respect to a Share that is equal to or in excess of 10% of a Shareholder's adjusted tax basis (or fair market value upon the Shareholder's election) in such Share. In addition, extraordinary dividends include dividends received within a one-year period that, in the aggregate, equal or exceed 20% of the Shareholder's adjusted tax basis (or fair market value). Corporate Shareholders should consult their own tax advisors regarding the United States federal tax consequences of the Offer in relation to their particular facts and circumstances.

Medicare Surtax. An additional 3.8% tax is imposed on the "net investment income" of certain United States citizens and resident aliens, and on the undistributed "net investment income" of certain estates and trusts. Among other items, "net investment income" generally includes gross income from dividends and net gain from the disposition of property, such as the Shares, less certain deductions. You should consult your tax advisor with respect to this additional tax.

United States Federal Income Tax Backup Withholding. See Section 3 for information regarding the United States federal income tax backup withholding requirements.

Consequences to Non-United States Holders.

Sale or Exchange Treatment. Subject to the discussion below regarding FATCA and the discussion in Section 3 regarding backup withholding, gain realized by a Non-United States Holder on an exchange of Shares for cash pursuant to the Offer generally will not be subject to United States federal income tax if the exchange is treated as a sale or exchange for United States federal income tax purposes pursuant to the tests of Section 302 of the Code described above under "Consequences to United States Holders — *Characterization of the Purchase*" unless (1) such gain is effectively connected with the conduct by such Non-United States Holder of a trade or business in the United States (and, if an applicable income tax treaty applies, the gain is attributable to a United States permanent establishment maintained by such Non-United States Holder), (2) in the case of gain realized by a Non-United States Holder that is an individual, such Non-United States Holder is present in the United States for 183 days or more in the taxable year of the exchange and certain other conditions are met, or (3) our Shares that are exchanged constitute a "United States real property interest" with respect to the Non-United States Holder.

Non-United States Holders described in clauses (1) or (3) the preceding paragraph will be subject to United States federal income tax on a net income basis at applicable graduated United States federal income tax rates in much the same manner as if such Non-United States Holders were a resident of the United States, and in the case of a corporate Non-United States Holder described in clause (1) above, such Non-United States Holder may be subject to a branch profits tax at a 30% rate, or a lower rate specified in an applicable income tax treaty. An individual described in clause (2) above will be taxed on his or her gains at a flat rate of 30% (or such lower rate as may be specified by an applicable income tax treaty), which may be offset by certain United States source capital losses of such Non-United States Holder provided that such Non-United States Holder has timely filed United States federal income tax returns with respect to such losses.

Our Shares will constitute a United States real property interest with respect to a Non-United States Holder if (1) we are or have been a "United States real property holding corporation" for United States federal income tax purposes at any time during the shorter of (a) the period during which the Non-United States Holder held such Shares or (b) the 5-year period ending on the date the Non-United States Holder exchanges such Shares pursuant to the Offer and (2) the Non-United States Holder actually or constructively owns or has owned (at any time during the shorter of such periods) more than 5% of our Shares. Although there can be no assurances, we believe that we are not a USRPHC.

Distribution Treatment. If a Non-United States Holder does not satisfy any of the tests to qualify for sale or exchange treatment described above under "Consequences to United States Holders — *Characterization of the Purchase*," the full amount received by the Non-United States Holder in exchange for Shares pursuant to the Offer will be treated as a distribution to the Non-United States Holder with respect to the Non-United States Holder's Shares. Because qualification for sale or exchange treatment is dependent on matters of fact, the Bank and any other withholding agent may presume, for withholding purposes, that all amounts paid to Non-United States Holders in exchange for their Shares are distributions. To obtain an exemption from withholding on the grounds that the transaction is characterized as a sale or exchange (as opposed to a distribution), a Non-United States Holder must provide documentation to the applicable withholding agent demonstrating to such withholding agent's satisfaction that such Non-United States Holder meets one of the tests for sale or exchange treatment described above under "Consequences to United States Holders — *Characterization of the Purchase*." Notwithstanding the foregoing, it is possible that the applicable withholding agent may not accept documentation to support characterizing the transaction as a sale or exchange, in which case such withholding agent would withhold on gross proceeds payable to the Non-United States Holder as described in the following paragraph.

The treatment, for United States federal income tax purposes, of any amounts treated as a distribution as a dividend, a tax-free return of capital or a capital gain from the sale of Shares, and the reallocation of the basis of the Shares purchased by us, will be determined in the manner described above under "Consequences to United States Holders — *Distribution Treatment*." However, the applicable withholding agent will generally treat distributions received by a Non-United States Holder pursuant to the Offer as dividends and not as tax-free returns of capital or capital gains distributions. Subject to the discussion below regarding FATCA and the discussion in Section 3 regarding backup withholding, such dividends will generally be subject to withholding of United States federal income tax at the rate of 30% or, provided the applicable withholding agent has received proper certification of the application of an income tax treaty, such lower rate as may be specified by such income tax treaty, unless such dividends are effectively connected with a Non-United States Holder's conduct of a trade or business within the United States (and, if an applicable income tax treaty applies, attributable to a United States permanent establishment maintained by such Non-United States Holder). Non-United States Holders should consult their own tax advisors regarding their entitlement to benefits under an applicable income tax treaty and the manner of claiming the benefits of such treaty. If any amounts withheld exceed the Non-United States Holder's United States federal income tax liability, such Non-United States Holder may obtain a refund or credit of any excess amounts withheld by filing an appropriate claim for a refund with the IRS.

Amounts treated as dividends that are effectively connected with a Non-United States Holder's conduct of a trade or business in the United States (and, if required by an applicable income tax treaty, are attributable to a United States permanent establishment maintained by such Non-United States Holder) are generally taxed in the manner applicable to United States Holders, as described above under Consequences to "Non-United States Holders — *Sale or Exchange Treatment*." In such cases, the Non-United States Holder will not be subject to withholding so long as such Non-United States Holder complies with applicable certification and disclosure requirements. In addition, dividends received by a foreign corporation that are effectively connected with the conduct of a trade or business in the United States may be subject to a branch profits tax at a 30% rate, or a lower rate specified in an applicable income tax treaty. See Section 3 for information regarding the application of United States federal income tax withholding to payments made to Non-United States Holders.

Notwithstanding the foregoing, and subject to the discussion below regarding FATCA, even if a Non-United States Holder tenders Shares held in its own name as a holder of record and delivers to the applicable withholding agent a properly completed IRS Form W-8BEN, IRS Form W-8BEN-E or other applicable form before any payment is made so as to avoid backup withholding, the applicable withholding agent will withhold 30% of the gross proceeds unless such withholding agent determines that a reduced rate under an applicable income tax treaty or exemption from withholding is applicable.

FATCA. Under Sections 1471 through 1474 of the Code and the Treasury Regulations and administrative guidance issued thereunder ("FATCA"), foreign financial institutions (which include most foreign hedge funds, private equity funds, mutual funds, securitization vehicles and other investment vehicles) and certain other foreign entities must comply with information reporting rules with respect to their United States account holders and investors or be subject to a withholding tax on certain United States-source payments made to them (whether received as a beneficial owner or as an intermediary for another party). More specifically, a foreign financial institution or other applicable foreign entity that does not comply with the FATCA reporting requirements will generally be subject to a 30% withholding tax with respect to any "withholdable payments." For this purpose, withholdable payments generally include United States-source payments otherwise subject to nonresident withholding tax (e.g., United States-source dividends) and, subject to proposed regulations described below, gross proceeds from the sale of any equity instruments of United States issuers. Because the applicable withholding agent will generally treat amounts received by a Non-United States Holder with respect to our purchase of Shares under the Offer as dividends, such amounts will be treated as withholdable payments and payments to a foreign financial institution or other applicable foreign entity that does not comply with the FATCA reporting requirements will be subject to the FATCA withholding tax. Amounts withheld under FATCA will also satisfy the withholding tax described above under "Consequences to Non-United States Holders — *Distribution Treatment*," but are not eligible for reduction by income tax treaties. An intergovernmental agreement between the United States and an applicable foreign government may modify these requirements.

In December 2018, the IRS issued proposed Treasury Regulations that eliminate withholding on payments of gross proceeds. Pursuant to the proposed Treasury Regulations, any withholding agent may (but is not required to) rely on this proposed change to FATCA withholding until the final regulations are issued or the proposed regulations are withdrawn.

We will not pay any additional amounts to Shareholders in respect of any amounts withheld, including pursuant to FATCA. Shareholders should consult their own tax advisors regarding FATCA in relation to their particular facts and circumstances.

This discussion is general in nature and does not discuss all aspects of United States federal income taxation that may be relevant to a particular Shareholder in light of the Shareholder's particular circumstances, or to certain types of Shareholders subject to special treatment under United States federal income tax laws. You are advised to consult with your own tax advisor to determine the particular tax consequences to you of the Offer, including the applicability and effect of state, local and foreign tax laws and income tax treaties.

Extension of the Offer; Termination; Amendment

We expressly reserve the right, in our sole and absolute discretion and subject to applicable law, at any time and from time to time, and regardless of whether or not any of the events set forth under "Conditions to the Offer" has occurred or has been deemed by us to have occurred, to extend the period of time the Offer is open and delay acceptance for payment of, and payment for, any Shares by giving notice of such extension. We also expressly reserve the right, in our sole discretion, and regardless of whether or not any of the events set forth under "Conditions to the Offer" has occurred or has been deemed by us to have occurred, to terminate the Offer and reject for payment and not pay for any Shares not theretofore accepted for payment or paid for, subject to applicable law, by giving oral or written notice of such termination and making a public announcement of such termination. We further reserve the right, in our sole discretion, to postpone payment for Shares, upon the occurrence of any of the conditions specified under "Conditions to the Offer," by giving oral or written notice of such postponement to the Bank and making a public announcement of such postponement.

Subject to compliance with applicable law, we further reserve the right, in our sole discretion, to amend the Offer in any respect (including, without limitation, by decreasing or increasing the consideration per Share offered to Shareholders pursuant to the Offer, by decreasing or increasing the aggregate purchase price of Shares being sought in the Offer, adding additional conditions or otherwise).

If we materially change the terms of the Offer or the information concerning the Offer, or if we waive a material condition of the Offer, we will extend the Offer to the extent required by applicable law. The minimum period during which a tender offer must remain open following material changes in the terms of the tender offer or information concerning the tender offer (other than a change in price or a change in percentage of securities sought) will depend on the facts and circumstances, including the relative materiality of such terms or information. If we:

- change the Purchase Price; or
- decrease the number of Shares being sought in the Offer; and

- the Offer is scheduled to expire at any time earlier than the expiration of a period ending on the tenth business day from, and including, the date that announcement of any such change is first published, sent or given in the manner specified herein, the Offer will be extended until a date that is on or after the expiration of such period of ten business days.

Amendments to the Offer may be made at any time and from time to time effected by public announcement, such announcement, in the case of an extension, to be issued no later than 9:00 a.m., Cashmere, Washington time, on the next business day after the last previously scheduled or announced Expiration Time. Any public announcement made pursuant to the Offer will be disseminated promptly to Shareholders in a manner reasonably designed to inform Shareholders of such change. Without limiting the manner in which we may choose to make a public announcement, except as required by applicable law, we shall have no obligation to publish, advertise or otherwise communicate any such public announcement other than by making a release through a newswire service.

Fees and Expenses

The Bank may contact holders of Shares by mail, e-mail, telephone and in person and may request brokers, dealers, commercial banks, and other nominee Shareholders to forward materials relating to the Offer to beneficial owners and will coordinate all activities relating to the Offer.

We will not pay any fees or commissions to brokers, dealers, commercial banks, trust companies or other persons for soliciting tenders of Shares pursuant to the Offer or otherwise. Shareholders holding Shares in street name through brokers, dealers, commercial banks, trust companies or other nominee Shareholders are urged to consult the brokers, dealers or other nominee Shareholders to determine whether transaction costs may apply if Shareholders tender Shares through the brokers, dealers or other nominee shareholders and not directly to Broadridge Corporate Issuer Solutions, Inc. No broker, dealer, commercial bank or trust company has been authorized to act as our agent for purposes of the Offer. We will pay or cause to be paid all stock transfer taxes, if any, on our purchase of Shares pursuant to the Offer, except as otherwise provided under "Purchase of Shares and Payment of Purchase Price."

Certain officers and employees of the Bank may render services in connection with the Offer but will not receive any additional compensation for such services.

Miscellaneous

We are not aware of any jurisdiction where the making of the Offer is not in compliance with applicable law. If we become aware of any jurisdiction where the making of the Offer or the acceptance of Shares pursuant thereto is not in compliance with applicable law, we will make a good faith effort to comply with the applicable law. If, after such good faith effort, we cannot comply with the applicable law, the Offer will not be made to (nor will tenders be accepted from or on behalf of) the holders of Shares in such jurisdiction. In any jurisdiction where the securities or other laws require the Offer to be made by a licensed broker or dealer, the Offer will be deemed to be made on our behalf by one or more registered brokers or dealers licensed under the laws of that jurisdiction.

After the completion of the Offer, we may purchase Shares in the open market subject to market conditions, or pursuant to the terms of equity incentive awards or in private transactions, exchange offers, tender offers or otherwise. Any of these purchases may be on the same terms as, or on terms more or less favorable to Shareholders than, the terms of the Offer. Any possible future purchases by us will depend on many factors, including the market price of the Shares, the results of the Offer, our business and financial condition and general economic and market conditions.

We have not authorized any person to make any recommendation on our behalf as to whether you should tender or refrain from tendering your Shares in the Offer. You should rely only on the information contained in this Disclosure Statement and in the Letter of Transmittal or to documents to which we have referred you. Our delivery of this Disclosure Statement will not under any circumstances create any implication that the information contained in this Disclosure Statement is correct as of any time other than the date of this Disclosure Statement or that there have been no changes in the information included or incorporated by reference herein or in the affairs of the Bank since the date hereof. We have not authorized anyone to provide you with information or to make any representation in connection with the Offer other than the information and representations contained in this Disclosure Statement or in the Letter of Transmittal. If anyone makes any recommendation or gives any information or representation, you must not rely upon that recommendation, information or representation as having been authorized by the Bank or any of our affiliates.

Exhibit A
Letter of Transmittal

LETTER OF TRANSMITTAL

TO TENDER
SHARES OF COMMON STOCK
PURSUANT TO THE OFFER TO PURCHASE DATED APRIL 13, 2021 BY

CASHMERE VALLEY BANK

OF UP TO 340,000 SHARES OF ITS COMMON STOCK
AT A PURCHASE PRICE OF $70.00

THE OFFER, PRORATION PERIOD AND WITHDRAWAL RIGHTS WILL EXPIRE AT 5:00 P.M., CASHMERE, WASHINGTON TIME ON MAY 13, 2021, UNLESS THE OFFER IS EXTENDED OR TERMINATED

Mail or deliver this Letter of Transmittal, together with the certificate(s) representing your shares, to:

If delivering via a USPS Service:	*If delivering via UPS, FedEx or Courier:*
Broadridge Corporate Issuer Solutions, Inc. Attn: BCIS Re-Organization Dept. P.O. Box 1317 Brentwood, NY 11717-0693	Broadridge Corporate Issuer Solutions, Inc. Attn: BCIS IWS 51 Mercedes Way Edgewood, NY 11717

DELIVERY OF THIS LETTER OF TRANSMITTAL TO AN ADDRESS OTHER THAN AS SET FORTH ABOVE DOES NOT CONSTITUTE A VALID DELIVERY. THE INSTRUCTIONS ACCOMPANYING THIS LETTER OF TRANSMITTAL SHOULD BE READ CAREFULLY BEFORE THIS LETTER OF TRANSMITTAL IS COMPLETED.

DESCRIPTION OF SHARES TENDERED **(See Instructions 3 and 4)**

Name(s) and Address(es) of Registered Owner(s) (Attach Additional Signed List, if Necessary)	Shares Surrendered			
	Certificated Shares**			
	Certificate Number(s) *	Total Number of Shares Represented by Certificate(s)*	Number of Shares Tendered**	Book-Entry Shares Tendered
	Total Shares:			

* Need not be completed by book-entry shareholders.

** Unless otherwise indicated, it will be assumed that all shares of common stock represented by certificates described above are being surrendered hereby.

Delivery of this Letter of Transmittal to an address other than as set forth above will not constitute a valid delivery to Broadridge Corporate Issuer Solutions, Inc. (the "Depositary"). Deliveries to The Depository Trust Company ("DTC," which is hereinafter referred to as the "Book-Entry Transfer Facility") will not be forwarded to the Bank and therefore will not constitute valid delivery to the Bank. You should carefully read all of the instructions set forth in this Letter of Transmittal before completing this Letter of Transmittal.

You should use this Letter of Transmittal if you are tendering physical certificates or are causing the Shares to be delivered by book-entry transfer to the Bank's account at the Book-Entry Transfer Facility pursuant to the procedures set forth in the Offer to Purchase.

Please note the following:

If you desire to tender Shares in the tender offer, but you cannot deliver your Shares and all other required documents to the Bank by the Expiration Date (as defined in the Offer to Purchase) or cannot comply with the procedures for book-entry transfer on a timely basis, you must tender your shares pursuant to the guaranteed delivery procedure set forth in the Offer to Purchase. See Instruction 2.

Additional Information if Shares Have Been Lost, Stolen, Destroyed or Mutilated, Are Being Delivered By Book-Entry Transfer or Are Being Delivered Pursuant to a Previous Notice of Guaranteed Delivery

□ **Check here if tendered shares are being delivered pursuant to a Notice of Guaranteed Delivery previously sent to the Bank and complete the following:**

Name(s) of Tendering Shareholder(s):

Date of Execution of Notice of Guaranteed Delivery:

Name of Institution that Guaranteed Delivery:

If any certificate evidencing the shares you are tendering with this Letter of Transmittal has been lost, stolen, destroyed or mutilated you should call Broadridge Financial Solutions, Inc., as Transfer Agent, at 1-855-534-4979, regarding the requirements for replacement. You may be required to post a bond to secure against the risk that the certificates may be subsequently recirculated. You are urged to contact the Transfer Agent immediately in order to receive further instructions, for a determination of whether you will need to post a bond and to permit timely processing of this documentation. See Instruction 11.

□ **Check here if tendered shares are being delivered by book-entry transfer made to an account maintained by the Bank with the Book-Entry Transfer Facility and complete the following (only financial institutions that are participants in the system of any Book-Entry Transfer Facility may deliver shares by book-entry transfer):**

Name(s) of Tendering Institution(s): ______________________________

Account No.: ______________________________

Transaction Code No.: ______________________________

Ladies and Gentlemen:

The undersigned hereby tenders to Cashmere Valley Bank (the "Bank"), the above-described shares of Common Stock, no par value per share (the "Shares"), upon the terms and subject to the conditions set forth in the Offer to Purchase dated April 13, 2021 (as it may be amended or supplemented from time to time, the "Offer to Purchase"), receipt of which is hereby acknowledged, (which collectively with this Letter of Transmittal, as amended or supplemented from time to time, constitute the "tender offer"). The Bank also expressly reserves the right, in its sole discretion, to purchase additional shares subject to applicable legal and regulatory requirements.

Subject to, and effective upon, acceptance for payment of and payment for the shares tendered herewith, the undersigned hereby sells, assigns and transfers to or upon the order of the Bank all right, title and interest in and to all the shares that are being tendered hereby and appoints the Bank the true and lawful agent and attorney-in-fact of the undersigned with respect to such shares, with full power of substitution (such power of attorney being deemed to be an irrevocable power coupled with an interest), to:

(1) deliver certificates for such shares, or transfer ownership of such shares on the account books maintained by the Book-Entry Transfer Facility, together, in any such case, with all accompanying evidences of transfer and authenticity, to or upon the order of the Bank;

(2) present such shares for transfer and cancellation on the books of the Bank; and

(3) receive all benefits and otherwise exercise all rights of beneficial ownership of such shares, all in accordance with the terms of the tender offer.

Pursuant to the Offer to Purchase, the Bank intends to purchase up to 340,000 Shares. The Bank will return at its expense all other shares not properly withdrawn and shares not purchased because of proration or conditional tenders, promptly following the Expiration Date.

The undersigned hereby represents, warrants and covenants that the undersigned:

(1) has full power and authority to tender, sell, assign and transfer the shares tendered hereby and that, when the same are accepted for payment by the Bank, the Bank will acquire good and unencumbered title thereto, free and clear of all liens, restrictions, charges and encumbrances and not subject to any adverse claims;

(2) is not in possession of any information that constitutes or could reasonably be expected to constitute material, non-public information of the Bank; and

(3) will, upon request, execute and deliver all additional documents deemed by the Bank and the Transfer Agent to be necessary or desirable to complete the sale, assignment and transfer of the shares tendered hereby.

The undersigned understands that tenders of Shares pursuant to any one of the procedures described in the Offer to Purchase and in the instructions hereto will constitute an agreement between the undersigned and the Bank upon the terms and subject to the conditions of the tender offer, which agreement will be governed by, and construed in accordance with, the laws of the State of Washington. The undersigned acknowledges that under no circumstances will the Bank pay interest on the Purchase Price.

The undersigned recognizes that, under certain circumstances set forth in the Offer to Purchase, the Bank may terminate or amend the tender offer or may postpone the acceptance for payment of, or the payment for, shares tendered or may accept for payment fewer than all of the shares tendered.

Unless otherwise indicated under "Special Payment Instructions," please issue the check for the Purchase Price of any shares purchased (less the amount of any U.S. federal income or backup withholding tax required to be withheld), and return any shares not tendered or not purchased, in the name of the undersigned or, in the case of shares tendered by book-entry transfer, by credit to the account at the Book-Entry Transfer Facility designated above. Similarly, unless otherwise indicated under "Special Delivery Instructions," please mail the check for the Purchase Price of any shares purchased (less the amount of any U.S. federal income or backup withholding tax required to be withheld) and any certificates for shares not tendered or not purchased (and accompanying documents, as appropriate) to the undersigned at the address shown below the undersigned's signature. In the event that both "Special Payment Instructions" and "Special Delivery Instructions" are completed, please issue the check for the Purchase Price of any shares purchased (less the amount of any U.S. federal income or backup withholding tax required to be withheld) and return any shares not tendered or not purchased in the name of, and mail said check and any certificates to, the person so indicated.

The undersigned recognizes that the Bank has no obligation, pursuant to the "Special Payment Instructions," to transfer any shares from the name of the registered holder thereof, if the Bank does not accept for payment any of the shares so tendered.

All authority herein conferred or agreed to be conferred shall survive the death or incapacity of the undersigned and any obligation of the undersigned hereunder shall be binding upon the heirs, personal representatives, successors and assigns of the undersigned.

SIGN HERE
(Please Complete and Return the Attached Form W-9 below or an applicable Form W-8)

Signature(s) of Owner(s)

Name(s):

(Please Print)

Capacity (full title):

Address:

(Tax Identification or Social Security Number)
(See Form W-9 Included Herewith)

Daytime Area Code and Telephone Number:

Dated:

(Must be signed by registered holder(s) exactly as name(s) appear(s) on stock certificate(s) or on a security position listing or by persons(s) authorized to become registered holder(s) by certificates and documents transmitted herewith. If signature is by a trustee, executor, administrator, guardian, attorney-in-fact, agent, officer of a corporation or other person acting in a fiduciary or representative capacity, please set forth full title and see Instruction 5.)

CONDITIONAL TENDER
(See Instruction 12)

A tendering shareholder may condition his, her or its tender of Shares upon the Bank purchasing a specified minimum number of the shares tendered, all as described in the Offer to Purchase. Unless at least the minimum number of Shares that you indicate below is purchased by the Bank pursuant to the terms of the tender offer, none of the shares tendered will be purchased. It is the tendering shareholder's responsibility to calculate the minimum number of Shares that must be purchased if any are purchased, and each shareholder is urged to consult his, her or its own tax advisor. **Unless this box has been checked and a minimum specified, your tender will be deemed unconditional.**

☐ The minimum number of Shares that must be purchased, if any are purchased, is:________shares.

If, because of proration, the minimum number of Shares designated will not be purchased, the Company may accept conditional tenders by random lot, if necessary. However, to be eligible for purchase by random lot, the tendering shareholder must have tendered all of his, her or its Shares and checked the box below:

☐ The tendered Shares represent all shares held by the undersigned.

SPECIAL PAYMENT INSTRUCTIONS (See Instructions 1, 5, 6 and 7)

To be completed ONLY if the check for the Purchase Price of Shares purchased (less the amount of any U.S. federal income or backup withholding tax required to be withheld) is to be issued in the name of someone other than the undersigned.

Issue ☐ **Check to:**
☐ **Share certificate to:**

Name(s)

(Please Print)

Address:

below:

(Taxpayer Identification No(s).)

☐ **Credit shares delivered by book-entry transfer and not purchased to the account set forth**

SPECIAL DELIVERY INSTRUCTIONS (See Instructions 1, 5, 6 and 7)

To be completed ONLY if the check for the Purchase Price of Shares purchased (less the amount of any U.S. federal income or backup withholding tax required to be withheld) and/or certificates for Shares not tendered or not purchased are to be mailed to someone other than the undersigned or to the undersigned at an address other than that shown below the undersigned's signature(s).

Issue ◻ **Check to:**
◻ **Share certificate to:**

Name(s) ____________________

(Please Print)

Address: ____________________

____

Guarantee of Signature(s), if required (See Instructions 1 and 5)

Name:

(Please Print)

Title:

Name of Firm:

Authorized Signature:

Address:

Area Code and Telephone Number:

Dated:

INSTRUCTIONS

Forming Part of the Terms and Conditions of the Tender Offer

1. Guarantee of Signatures.

Except as otherwise provided below, all signatures on this Letter of Transmittal must be guaranteed by a financial institution (including most banks and brokerage houses) which is a participant in the Securities Transfer Agents Medallion Program (an "Eligible Institution"). Signatures on this Letter of Transmittal need not be guaranteed (a) if this Letter of Transmittal is signed by the registered holder(s) of the shares (which term, for purposes of this document, shall include any participant in the Book-Entry Transfer Facility whose name appears on a security position listing as the owner of shares) tendered herewith and such holder(s) have not completed the box entitled "Special Payment Instructions" or "Special Delivery Instructions" on this Letter of Transmittal or (b) if such shares are tendered for the account of an Eligible Institution. See Instruction 7. You may also need to have any certificates you deliver endorsed or accompanied by a stock power, and the signatures on these documents may also need to be guaranteed. See Instruction 5.

2. Delivery of Letter of Transmittal and Shares; Guaranteed Delivery Procedure.

You should use this Letter of Transmittal only if you are forwarding certificates with this Letter of Transmittal pursuant to the procedures set forth in the Offer to Purchase. In order for you to properly tender shares, certificates for all physically delivered shares, or a confirmation of a book-entry transfer of all shares delivered electronically into the Bank's account at the Book-Entry Transfer Facility, as well as a properly completed and duly executed Letter of Transmittal or an Agent's Message in connection with book-entry transfer and any other documents required by this Letter of Transmittal, must be received by the Bank at one of its addresses set forth on the front page of this Letter of Transmittal by the Expiration Date (as defined in the Offer to Purchase).

Agent's Message. The term "Agent's Message" means a message transmitted by the Book-Entry Transfer Facility to, and received by, the Bank, which states that the Book-Entry Transfer Facility has received an acknowledgment from the participant in the Book-Entry Transfer Facility tendering the shares that such participant has received and agrees to be bound by the terms of the Letter of Transmittal and the Bank may enforce such agreement against them.

Guaranteed Delivery. If you cannot deliver your shares and all other required documents to the Bank by the Expiration Date or the procedure for book-entry transfer cannot be completed on a timely basis, you must tender your shares pursuant to the guaranteed delivery procedure set forth in the Offer to Purchase. Pursuant to such procedure:

(a) such tender must be made by or through an Eligible Institution;

(b) a properly completed and duly executed Notice of Guaranteed Delivery substantially in the form provided by the Bank must be received by the Expiration Date, including (where required) a signature guarantee by an Eligible Institution in the form set forth in the Notice of Guaranteed Delivery; and

(c) the certificates for all physically delivered shares, or a confirmation of a book-entry transfer of all shares delivered electronically into the Bank's account at the Book-Entry Transfer Facility, together with a properly completed and duly executed Letter of Transmittal with any required signature guarantees or an Agent's Message and any other documents required by this Letter of Transmittal, must be received by the Bank within two OTCQX trading days after the date of execution of such Notice of Guaranteed Delivery, all as provided in the Offer to Purchase.

The method of delivery of all documents, including share certificates, is at your option and risk. If you choose to deliver the documents by mail, then registered mail with return receipt requested, properly insured, is recommended. In all cases, sufficient time should be allowed to ensure timely delivery.

Except as specifically permitted by the Offer to Purchase, the Bank will not accept any alternative, conditional or contingent tenders, and no fractional shares will be purchased. By executing this Letter of Transmittal, you waive any right to receive any notice of the acceptance for payment of the shares.

3. Inadequate Space.

If the space provided in the box captioned "Description of Shares Tendered" is inadequate, then you should list the certificate numbers and the number of shares on a separate signed schedule attached hereto.

4. Partial Tenders (Not applicable to shareholders who tender by book-entry transfer).

If you wish to tender fewer than all of the shares represented by any certificates that you deliver to the Bank, fill in the number of shares which are to be tendered in the box entitled "Number of Shares Tendered." In such case, a new certificate for the remainder of the shares represented by the old certificate will be sent to the person(s) signing this Letter of Transmittal as promptly as practicable after the expiration or termination of the tender offer. Unless you indicate otherwise, all shares represented by certificates delivered to the Bank will be deemed to have been tendered. In the case of shares tendered by book-entry transfer at the Book-Entry Transfer Facility, the shares will be credited to the appropriate account maintained by the tendering shareholder at the Book-Entry Transfer Facility. In each case, shares will be returned or credited without expense to the shareholder.

5. Signatures on Letter of Transmittal; Stock Powers and Endorsements.

(a) *Exact Signatures.* If this Letter of Transmittal is signed by the registered holder(s) of the shares tendered hereby, the signature(s) must correspond with the name(s) as written on the face of the certificates without alteration, enlargement or any change whatsoever.

(b) *Joint Holders.* If any of the shares tendered hereby are held of record by two or more persons, all such persons must sign this Letter of Transmittal.

(c) *Different Names on Certificates.* If any of the shares tendered hereby are registered in different names on different certificates, it will be necessary to complete, sign and submit as many separate Letters of Transmittal as there are different registrations of certificates.

(d) *Endorsements.* If this Letter of Transmittal is signed by the registered holder(s) of the shares tendered hereby, no endorsements of certificates or separate stock powers are required unless payment of the Purchase Price is to be made, or shares not tendered or not purchased are to be returned, in the name of any person other than the registered holder(s). Signatures on any such certificates or stock powers must be guaranteed by an Eligible Institution.

If this Letter of Transmittal is signed by a person other than the registered holder(s) of the shares tendered hereby, certificates must be endorsed or accompanied by appropriate stock powers, in either case, signed exactly as the name(s) of the registered holder(s) appear(s) on the certificates for such shares. Signature(s) on any such certificates or stock powers must be guaranteed by an Eligible Institution. See Instruction 1.

If this Letter of Transmittal or any certificate or stock power is signed by a trustee, executor, administrator, guardian, attorney-in-fact, officer of a corporation or other person acting in a fiduciary or representative capacity, such person should so indicate when signing, and proper evidence satisfactory to the Bank of the authority of such person so to act must be submitted.

6. Stock Transfer Taxes.

Except as provided in this Instruction 6, the Bank will pay any stock transfer taxes with respect to the sale and transfer of any shares to it or its order pursuant to the tender offer. If, however, payment of the Purchase Price is to be made to, or shares not tendered or not purchased are to be returned in the name of, any person other than the registered holder(s), or tendered shares are registered in the name of a person other than the name of the person(s) signing this Letter of Transmittal, the amount of any stock transfer taxes (whether imposed on the registered holder(s), such other person or otherwise) payable on account of the transfer to such person will be deducted from the Purchase Price by the Bank, unless satisfactory evidence of the payment of such taxes, or exemption therefrom, is submitted.

7. Special Payment and Delivery Instructions.

If the check for the Purchase Price of any shares purchased is to be issued and any shares not tendered or not purchased are to be returned, in the name of a person other than the person(s) signing this Letter of Transmittal or if the check and any certificates for shares not tendered or not purchased are to be mailed to someone other than the person(s) signing this Letter of Transmittal or to the person(s) signing this Letter of Transmittal at an address other than that shown above, the boxes captioned "Special Delivery Instructions" and "Special Payment Instructions" on this Letter of Transmittal should be completed. Transfer taxes may be apply if either the box captioned "Special Delivery Instructions" or "Special Payment Instructions" on this Letter of Transmittal is completed. See Instruction 6.

8. Backup Withholding.

Under U.S. federal income tax laws, the Bank may be required to withhold a portion of the amount of any payments made to certain shareholders pursuant to the Offer. In order to avoid such backup withholding, each tendering shareholder or payee that is a United States person (for U.S. federal income tax purposes), must provide the Bank with such shareholder's or payee's correct taxpayer identification number ("TIN") and certify that such shareholder or payee is not subject to such backup withholding by completing the attached Form W-9. Certain shareholders or payees (including, among others, corporations, non-resident foreign individuals and foreign entities) are not subject to these backup withholding and reporting requirements. A tendering shareholder who is a foreign individual or a foreign entity should complete, sign, and submit to the Bank the appropriate Form W-8. A Form W-8 may be obtained from the Bank or downloaded from the Internal Revenue Service's website at the following address: *http://www.irs.gov.* Failure to complete the Form W-9 or the appropriate Form W-8 will not, by itself, cause shares to be deemed invalidly tendered, but may require the Bank to withhold a portion of the amount of any payments made of the Purchase Price pursuant to the Offer.

9. Irregularities.

The Bank will determine all questions as to Purchase Price, the form of documents and the validity, eligibility (including time of receipt) and acceptance for payment of any tender of shares. The Bank reserves the right to reject any or all tenders of shares it determines not to be in proper form or the acceptance of which or payment for which may, in the opinion of the Bank 's counsel, be unlawful. The Bank also reserves the right to waive any defect or irregularity in the tender of any particular shares. No tender of shares will be deemed to be properly made until all defects and irregularities have been cured or waived. Unless waived, any defects or irregularities in connection with tenders must be cured within such time as the Bank shall determine. Neither the Bank nor any other person is or will be under any duty to give notification of any defect or irregularity in tenders, and none of them will incur any liability for failure to give any such notice.

10. Requests for Assistance or Additional Copies.

Questions and requests for assistance or additional copies of the Offer to Purchase and this Letter of Transmittal should be directed to the Bank at its address and telephone number set forth above.

11. Lost, Stolen, Destroyed or Mutilated Certificates.

If your certificate or certificates for part or all of your shares has been lost, stolen, destroyed or mutilated, you should call Broadridge Financial Solutions, Inc., as Transfer Agent, at 1-855-534-4979 regarding the requirements for replacement at the address set forth on the cover page of this Letter of Transmittal. You may be required to post a bond to secure against the risk that the certificates may be subsequently recirculated. You are urged to contact the Transfer Agent immediately in order to receive further instructions, for a determination as to whether you will need to post a bond and to permit timely processing of this documentation.

12. Conditional Tenders.

As described in the Offer to Purchase, shareholders may condition their tenders on all or a minimum number of their tendered shares being purchased. If you wish to make a conditional tender, you must indicate this in the box captioned “Conditional Tender” in this Letter of Transmittal or, if applicable, the Notice of Guaranteed Delivery. In the box in this Letter of Transmittal or the Notice of Guaranteed Delivery, you must calculate and appropriately indicate the minimum number of shares that must be purchased if any are to be purchased.

As discussed in the Offer to Purchase, proration may affect whether the Bank accepts conditional tenders and may result in shares tendered pursuant to a conditional tender being deemed withdrawn if the minimum number of shares would not be purchased. If, because of proration, the minimum number of shares that you designate will not be purchased, the Bank may accept conditional tenders by random lot, if necessary. However, to be eligible for purchase by random lot, you must have tendered all your shares and check the box so indicating. Upon selection by random lot, if any, the Bank will limit its purchase in each case to the designated minimum number of shares.

All tendered shares will be deemed unconditionally tendered unless the “Conditional Tender” box is completed. Each shareholder is urged to consult his, her or its own tax advisor.

This Letter of Transmittal, properly completed and duly executed, together with certificates representing shares being tendered (or confirmation of book-entry transfer) and all other required documents, must be received before 5:00 p.m., Cashmere, Washington time, on the Expiration Date, or the tendering shareholder must comply with the procedures for guaranteed delivery.

Exhibit B
Financial Statements

Performance Results	Year Ended December 31, 2020	2019	2018	2017	2016
Return on average equity	11.59%	11.55%	12.35%	10.56%	10.70%
Return on average assets	1.41%	1.49%	1.45%	1.23%	1.24%
Equity to assets	11.97%	12.44%	12.33%	11.90%	11.41%
Earnings per share - Basic	$6.43	$5.70	$5.29	$4.49	$4.29
Dividends per share	$3.40	$1.30	$2.70	$1.08	$0.98
Book value per share	$60.09	$51.78	$45.54	$43.90	$40.50
Market value per share	$52.61	$63.00	$54.01	$58.00	$47.25
Average earning assets to average total assets	94.75%	95.56%	95.72%	95.97%	96.85%
Allowance for credit losses to total loans at December 31	1.44%	1.22%	1.16%	1.19%	1.28%
Efficiency ratio	51.71%	55.02%	53.45%	51.35%	50.75%
Yield and Cost of Funds					
Tax equivalent yield on investments	2.21%	2.94%	2.98%	2.91%	2.65%
Tax equivalent yield on loans	4.08%	4.25%	4.03%	4.05%	4.09%
Cost of funds	0.44%	0.54%	0.39%	0.35%	0.36%
Tax equivalent net interest margin	2.82%	3.27%	3.46%	3.27%	3.25%
Selected Items *(in thousands)*					
Total cash and cash equivalents	$135,725	$141,393	$55,231	$56,686	$125,444
Total investments	$856,327	$542,087	$439,952	$516,387	$415,682
Total loans	$950,970	$918,541	$976,619	$894,250	$872,054
Total assets	$1,994,288	$1,651,499	$1,520,773	$1,516,014	$1,454,239
Total deposits	$1,719,971	$1,423,347	$1,314,877	$1,314,302	$1,269,026
Total equity	$238,678	$205,404	$187,503	$180,458	$165,879

To the shareholders and friends of Cashmere Valley Bank

Needless to say, 2020 was an extraordinary year. As of this writing it was nearly one year ago that I gave an order I never thought possible: closing all branches to walk-in traffic. We then went into what I call "war mode". We gathered as an executive team to begin prioritizing our actions to protect our customers and employees. We covered everything from sanitation processes to acquisition of Personal Protective Equipment (PPE). Supporting our employees became a primary focus. We provided leave for anything related to COVID-19 without the employee using any of their own accrued sick or vacation time. From sickness, exposure to the virus, positive test, or managing the needs of dependents, we supported our employees. We continue with this policy today. This pandemic was a reminder that human capital is of the utmost importance. You should be very proud of your bank and the way it treated its employees during this difficult time.

For customers, we increased staff at our drive-ups (even car hopping at times) and provided access to the lobby for anyone who needed it. We participated in the Paycheck Protection Plan with some $70 million in loans to the communities we serve during the multiphase program. These loans only yield 1% initially which causes harm to our net interest margin. The future promised forgiveness that would pay us the fees needed to make up for the low yield was considered an elusive government promise. I am happy to report that forgiveness and the resulting fee recognition is working fairly well.

In the face of all this, how did the bank do? I am happy to report surprisingly well. Asset growth and growth in deposits were just under 20%! We can't claim credit for all of this as many banks had similar performance. However, luck brings more benefit to the prepared and we continue to have an attractive offering with unique service for the communities we serve.

Earnings were also up over 9% and this is after funding $3.2 million to the loan loss reserve in anticipation of loan problems that so far have not materialized. We continue to have excellent credit quality even during this horrific pandemic. Our net interest margin has declined and continues to be a challenge in this rate environment. The bright light in our earnings came mostly from non-interest income (mortgage, insurance and wealth management).

We hope you can join us for the telephonic annual meeting to be held on April 20th at 7:00 PM where you can hear more about "the little bank with the big circle of friends".

Sincerely,

Greg Oakes,
President and CEO

Tel: 509-747-8095
Fax: 509-747-0415
www.bdo.com

601 West Riverside Ave Suite 900
Spokane, WA 99201

Independent Auditor's Report

Board of Directors and Shareholders
Cashmere Valley Bank
Cashmere, Washington

Opinion

We have audited the consolidated financial statements of Cashmere Valley Bank and its subsidiary (the Company), which comprise the consolidated balance sheets as of December 31, 2020 and 2019, and the related consolidated statements of income and comprehensive income, changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that the consolidated financial statements are issued or available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

BDO USA, LLP

Spokane, Washington
March 15, 2021

Cashmere Valley Bank and Subsidiary
Consolidated Balance Sheets

(Dollars in Thousands, Except Share Amounts)

	December 31, 2020	December 31, 2019
Assets		
Cash and cash equivalents:		
Cash and due from banks	$27,269	$29,644
Interest-bearing deposits at other financial institutions	97,466	107,456
Federal funds sold	10,990	4,293
Total cash and cash equivalents	135,725	141,393
Securities available for sale at fair value	856,327	542,087
Federal Home Loan Bank (FHLB) stock, at cost	1,982	1,825
Pacific Coast Banker's Bancshares (PCBB) stock, at cost	238	238
Loans held for sale	1,470	1,804
Loans and leases	950,970	918,541
Allowance for credit losses	(13,730)	(11,188)
Net loans and leases	937,240	907,353
Premises and equipment, net	16,381	16,772
Accrued interest receivable	7,829	5,625
Bank Owned Life Insurance (BOLI)	15,908	15,447
Goodwill	7,182	7,162
Intangibles, net	1,564	1,907
Mortgage servicing rights	2,856	2,147
Other assets	9,586	7,739
Total assets	**$1,994,288**	**$1,651,499**
Liabilities		
Deposits:		
Noninterest-bearing demand	$365,645	$274,171
Savings and interest-bearing demand	1,121,111	889,417
Time	233,215	259,759
Total deposits	1,719,971	1,423,347
Accrued interest payable	612	765
Short-term borrowings	16,395	10,154
Other liabilities	18,632	11,829
Total liabilities	**1,755,610**	**1,446,095**
Commitments and contingencies (Note 13)		
Shareholders' Equity		
Common stock (no par value); authorized 10,000,000 shares; Issued and outstanding: 2020 – 3,972,149; 2019 – 3,966,748	3,723	3,405
Treasury stock	(9,908)	(9,908)
Retained earnings	217,487	205,473
Other comprehensive income	27,376	6,434
Total shareholders' equity	**238,678**	**205,404**
Total liabilities and shareholders' equity	**$1,994,288**	**$1,651,499**

The accompanying notes are an integral part of these financial statements.

(Dollars in Thousands, Except Per Share Amounts)

	Year Ended December 31,	
	2020	**2019**
Interest Income:		
Loans and leases	$38,119	$40,465
Federal funds sold and deposits at other financial institutions	412	1,587
Securities available for sale:		
Taxable	9,368	7,872
Tax-exempt	5,711	4,913
Total interest income	53,610	54,837
Interest Expense:		
Deposits	6,847	7,334
Short-term borrowings	38	36
Total interest expense	6,885	7,370
Net interest income	**46,725**	**47,467**
Provision for credit losses	3,174	709
Net interest income after provision for credit losses	**43,551**	**46,758**
Noninterest Income:		
Service charges on deposit accounts	1,247	1,914
Mortgage banking operations	7,621	3,390
Net gain on sales of securities available for sale	2,520	772
Brokerage commissions	1,002	882
Insurance commissions and fees	4,616	4,579
Net interchange income	2,246	1,549
Increase in surrender value of BOLI	461	437
Other	1,303	1,258
Total noninterest income	21,016	14,781
Noninterest Expense:		
Salaries and employee benefits	19,969	18,745
Occupancy and equipment	2,997	3,139
Audits and examinations	479	378
State and local business and occupation taxes	952	783
FDIC insurance & WA state assessments	472	293
Legal and professional fees	500	615
Check losses and charge-offs	413	702
Low income housing fund losses	688	694
Data processing	4,636	4,718
Product delivery	1,030	1,008
Other	2,891	3,174
Total noninterest expense	35,027	34,249
Income before income taxes	**29,540**	**27,290**
Income Taxes	4,019	3,894
Net income	**$25,521**	**$23,396**
Change in the fair value of securities available for sale, net of tax	20,942	9,286
Comprehensive income, net of tax	**$46,463**	**$32,682**
Earnings per common share – Basic	$6.43	$5.70
Earnings per common share – Diluted	$6.42	$5.69

The accompanying notes are an integral part of these financial statements.

Cashmere Valley Bank and Subsidiary
Consolidated Statements of Shareholders' Equity
(Dollars in Thousands, Except Share Information)

	Shares of Common Stock	Common Stock	Treasury Stock	Retained Earnings	Other Comprehensive Income (Loss)	Total Equity
Balance as of December 31, 2018	**4,117,745**	**$2,921**	**$--**	**$187,434**	**$(2,852)**	**$187,503**
Net income	--	--	--	23,396	--	23,396
Other comprehensive income (loss), net of tax	--	--	--	--	9,286	9,286
Cash dividends paid	--	--	--	(5,357)	--	(5,357)
Stock based compensation expense	--	174	--	--	--	174
Exercise of common stock options	8,658	310	--	--	--	310
Restricted stock grants	200	--	--	--	--	--
Restricted stock forfeitures	(50)	--	--	--	--	--
Shares repurchased	(159,805)	--	(9,908)	--	--	(9,908)
Balance as of December 31, 2019	**3,966,748**	**3,405**	**(9,908)**	**205,473**	**6,434**	**205,404**
Net income	--	--	--	25,521	--	25,521
Other comprehensive income (loss), net of tax	--	--	--	--	20,942	20,942
Cash dividends paid	--	--	--	(13,507)	--	(13,507)
Stock based compensation expense	--	154	--	--	--	154
Exercise of common stock options	5,401	164	--	--	--	164
Restricted stock grants	--	--	--	--	--	--
Restricted stock forfeitures	--	--	--	--	--	--
Shares repurchased	--	--	--	--	--	--
Balance as of December 31, 2020	**3,972,149**	**$3,723**	**$(9,908)**	**$217,487**	**$27,376**	**$238,678**

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Cash Flows

(Dollars in Thousands)

	Year Ended December 31,	
	2020	**2019**
Cash Flows from Operating Activities		
Net income	$25,521	$23,396
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,395	2,830
Provision for credit losses	3,174	709
Investment amortization – net	6,562	4,588
Stock based compensation	154	174
Net gain on sale of securities and loans	(9,476)	(2,956)
Increase in surrender value of BOLI	(461)	(437)
Originations of loans held for sale	(176,501)	(83,816)
Proceeds from sales of loans held for sale	183,071	84,789
Net change in:		
Accrued interest receivable	(2,204)	(229)
Accrued interest payable	(153)	256
Deferred income tax	(469)	283
Federal income tax payable	(209)	122
Deferred compensation	187	164
Increase in deferred interchange revenue contract	170	44
Other – net	(1,175)	696
Net cash provided by operating activities	**31,586**	**30,613**
Cash Flows from Investing Activities		
Activity in securities available for sale:		
Sales proceeds	51,334	72,626
Maturities, prepayments, and calls	67,725	41,145
Purchases	(410,833)	(207,968)
Purchase of FHLB stock	(156)	(6)
Loans and leases originated less (greater) than principal collected	(32,992)	57,308
Investment in low income housing fund	(197)	(66)
Additions to premises and equipment	(1,515)	(1,329)
Cash paid for acquisitions	(164)	--
Proceeds from sale of premises and equipment	22	--
Net cash used by investing activities	**(326,776)**	**(38,290)**
Cash Flows from Financing Activities		
Net increase in deposits	296,624	108,470
Net increase in short-term borrowings	6,241	324
Cash dividends paid	(13,507)	(5,357)
Exercise of stock options	164	310
Repurchase of common stock	--	(9,908)
Net cash provided by financing activities	**289,522**	**93,839**
Net change in cash and due from banks	**(5,668)**	**86,162**
Cash and due from banks at beginning of year	141,393	55,231
Cash and due from banks at end of year	**$135,725**	**$141,393**

The accompanying notes are an integral part of these financial statements.

Note 1 – Summary of Significant Accounting Policies

Cashmere Valley Bank (the Company) is a Washington State chartered bank established in 1932 and operates 11 branches in North Central Washington. The Company's lending and other banking activities are carried out in and around Chelan, Douglas, Kittitas, and Yakima counties and to a lesser degree, areas of Western Washington. The Company provides loan and deposit services to predominantly small and middle-market business and retail customers. The consolidated financial statements include the accounts of Cashmere Valley Bank and the Bank's wholly owned subsidiary, Mitchell, Reed and Schmitten, Inc. (MRS), an insurance agency. Intercompany transactions and balances have been eliminated. MRS is based in Wenatchee, Washington and brokers personal and commercial lines of insurance, including property, casualty, life and health insurance.

Consolidated Financial Statement Presentation

The consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) and practices within the financial services industry. GAAP defines a public company as one whose securities trade in a public market, including in over-the-counter markets. As the Company's stock trades in certain over-the-counter markets, certain disclosures are required to meet public company requirements. The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, as of the date of the consolidated balance sheet, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ significantly from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate primarily to the determination of the allowance for credit losses and valuations of securities, goodwill, and mortgage servicing rights.

Cash and Cash Equivalents

The Company considers federal funds sold, cash and amounts due from banks, and interest-bearing deposits at other financial institutions to be cash and cash equivalents, and are reported as such on the consolidated balance sheets and statement of cash flows. Cash flows from loans, deposits, and short-term borrowings are reported net. Additional cash flow information was as follows (dollars in thousands):

	Year Ended December 31,	
	2020	**2019**
Cash paid for interest	$7,038	$7,114
Cash paid for income taxes	$4,698	$3,487
Significant non-cash transactions:		
Fair value adjustment of securities available for sale, net of tax	$20,942	$9,286

Stock Based Compensation

The Company has stock based compensation plans which are more fully discussed in Note 15. Under the plans, certain key employees have been awarded restricted stock grants and options to purchase common stock. Under the accounting guidance for stock compensation, compensation expense recognized includes the cost of stock based awards associated with restricted stock grants and incentive stock options which are recognized as compensation expense over the vesting period on a straight-line basis. The Company recognized stock based compensation expense totaling $154,000 and $174,000 in 2020 and 2019, respectively.

Securities Available for Sale

Securities available for sale consist of debt securities that the Company intends to hold for an indefinite period, but not necessarily to maturity. Such securities may be sold to implement the Company's asset/liability management strategies, interest rate risk strategies, and in response to changes in interest rates and similar factors. Securities available for sale are reported at fair value. Unrealized gains and losses, net of the related deferred tax effect, are reported as a net amount in a separate component of shareholders' equity entitled "other comprehensive income." Realized gains and losses on securities available for sale, determined using the specific identification method, are included in earnings. Generally, amortization of premiums and accretion of discounts are recognized in interest income over the contractual life of the security using the effective interest method. As principal repayments are received on securities, a proportionate amount of the related premium or discount is recognized so that the effective interest rate on the remaining portion of the security continues unchanged.

The Company evaluates the portfolio for impairment each quarter. In estimating other-than-temporary losses, the Company considers the following factors: (1) the length of time and the extent to which the market value has been less than cost; (2) the financial condition and near-term prospect of the issuer; (3) the intent and ability of the Company to retain its investment in a security for a period of time sufficient to allow for any anticipated recovery in market value; (4) implicit or implied guarantees of the U.S. government; (5) whether it is more likely than not that the Company will be required to sell the securities before recovery; and (6) general market conditions which reflect prospects for the economy as a whole, including interest rates and sector credit spreads. If a loss is deemed to be other-than-temporary, the Company then calculates a credit loss charge against earnings by subtracting the estimated present value of estimated future cash flows on the security from its amortized cost. The other-than-temporary impairment less the credit loss charge against earnings is a component of other comprehensive income.

Federal Home Loan Bank Stock

The Company, as a member of the Federal Home Loan Bank (FHLB) system, is required to maintain an investment in capital stock of the FHLB based on the sum of the two following calculations (calculated at least annually as of the preceding December 31):

- The Membership Stock Purchase Requirement: based on a percentage of assets as shown in table below:

	Current Requirement	Minimum Investment	Maximum Investment
Percent of Total Assets	0.12%	0.05%	0.25%
Membership Stock Cap	$10 million	$1 million	$30 million
Membership Stock Floor	$10,000	$10,000	$30,000

- The Activity Based Stock Purchase Requirement: based on a percentage of the book value held and records of the transactions shown in the table below:

Transaction	Current Requirement	Minimum Requirement	Maximum Requirement
Outstanding Advances	4.00%	2.00%	5.00%
Outstanding Acquired Member Assets	4.00%	0.00%	5.00%
Standby Letters of Credit	0.10%	0.00%	0.18%
Advance Commitments	0.00%	0.00%	0.35%
Acquired Member Asset Commitments	0.00%	0.00%	0.60%

The recorded amount of FHLB stock equals its fair value because the shares can only be redeemed by the FHLB at the $100 per share par value.

The Company views its investment in the FHLB stock as a long-term investment. Accordingly, when evaluating for impairment, the value is determined based on the ultimate recovery of the par value rather than recognizing temporary declines in value. The determination of whether a decline affects the ultimate recovery is influenced by criteria such as: (1) the significance of the decline in net assets of the FHLB as compared to the capital stock amount and length of time a decline has persisted; (2) impact of legislative and regulatory changes on the FHLB; and (3) the liquidity position of the FHLB. Management has determined there is no impairment on its FHLB stock as of December 31, 2020 and 2019.

Loans Held for Sale

Loans originated for sale in the secondary market, which is our principal market, or as whole loan sales are classified as loans held for sale. Management has elected the lower of cost or market option for all singly family loans held for sale, which are originated with the intent to be held for sale, and records these loans at the lower of cost or market. The fair value of loans held for sale is generally based on observable market prices from other loans in the secondary market that have similar collateral, credit, and interest rate characteristics. If quoted market prices are not readily available, the Company may consider other observable market data such as dealer quotes for similar loans or forward sale commitments. In certain cases, the fair value may be based on a discounted cash flow model. Gains and losses on loans held for sale are recognized in net gain on mortgage loan origination and sale activities within noninterest income. Direct loan origination costs and fees for single family loans originated as held for sale are recognized in earnings.

Loans Held for Investment

Loans held for investment are reported at the principal amount outstanding, net of cumulative charge-offs, interest applied to principal, for loans accounted for using the cost recovery method, unamortized net deferred loan origination fees and costs, and unamortized premiums or discounts on purchased loans. Deferred fees and costs and premiums and discounts are recognized over the contractual terms of the underlying loans using the constant effective yield, known as the interest method. Interest on loans is accrued and recognized as interest income at the contractual rate of interest. A determination is made as of the loan commitment date as to whether a loan will be held for sale or held for investment. This determination is based primarily on the type of loan or loan program and its related profitability characteristics.

When a loan is designated as held for investment, the intent is to hold these loans until maturity or pay-off. If subsequent changes occur, the Company may change its intent to hold these loans. Once a determination has been made to sell such loans, they are immediately transferred to loans held for sale and carried at the lower of cost or fair value.

Direct financing leases are carried at the aggregate of lease payments plus estimated residual value of the leased property less unearned income. Interest income from direct financing leases is recognized over the term of the lease to achieve a constant periodic rate of return on the outstanding investment.

From time to time, the Company will originate loans to facilitate the sale of other real estate owned without a sufficient down payment from the borrower. Such loans are accounted for using the installment method and any gain on sale is deferred.

Nonaccrual Loans

Loans are placed on nonaccrual status when the full and timely collection of principal and interest is doubtful, generally when the loan becomes 90 days or more past due for principal or interest payment, or if part of the principal balance has been charged off.

All payments received on nonaccrual loans are accounted for using the cost recovery method. Under the cost recovery method, all cash collected is applied to first reduce the principal balance. A loan may be returned to accrual status if all delinquent principal and interest payments are brought current and the collectability of the remaining principal and interest payments in accordance with the loan agreement is reasonably assured. Loans that are well-secured and in the process of collection are maintained on accrual status, even if they are 90 days or more past due.

Impaired Loans

A loan is considered impaired when it is probable that all contractual principal and interest payments due will not be collected in accordance with the terms of the loan agreement. Factors considered by management in determining whether a loan is impaired include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due.

Troubled Debt Restructurings

A loan is accounted for and reported as a troubled debt restructuring (TDR) when, for economic or legal reasons, we grant a concession to a borrower experiencing financial difficulty. A restructuring that results in only an insignificant delay in payment is not considered a concession. A delay may be considered insignificant if the payments subject to the delay are insignificant relative to the unpaid principal or collateral value and the contractual amount due, or the delay in timing of the restructured payment period is insignificant relative to the frequency of payments, the debt's original contractual maturity, or original expected duration.

TDR's are designated as impaired because interest and principal payments will not be received in accordance with original contract terms. TDR's that are performing and on accrual status as of the date of the modification remain on accrual status.

TDR's that are nonperforming as of the date of modification generally remain as nonaccrual until the prospect of future payments in accordance with the modified loan agreement is reasonably assured, generally demonstrated when the borrower maintains compliance with the restructured terms for a predetermined period, normally at least six months. TDR's with temporary below-market concessions remain designated as a TDR and impaired regardless of the accrual or performance status until the loan is paid off. However, if the TDR loan has been modified in a subsequent restructure with market terms and the borrower is not currently experiencing financial difficulty, then the loan may have its TDR designation removed.

Allowance for Credit Losses

The allowance for credit losses is maintained at a level sufficient to provide for probable credit losses based on evaluating known and inherent risks in the loan and lease portfolio. The allowance is provided based upon management's continuing analysis of the pertinent factors underlying the quality of the loan and lease portfolio. These factors include changes in the size and composition of the loan and lease portfolio, delinquency levels, actual loan loss experience, current economic conditions, and detailed analysis of individual loans for which full collectability may not be assured. The detailed analysis includes techniques to estimate the fair value of loan collateral and the existence of potential alternative sources of repayment. The allowance consists of specific, general, and unallocated components. For impaired loans, a specific allowance is established when the discounted cash flows, collateral value, or observable market price is lower than the carrying value of that loan. The general component covers non-impaired loans and is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover the risk of loss due to general economic uncertainties that could affect the loan portfolio and management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio. The appropriateness of the allowance for credit losses is estimated based upon these factors and trends identified by management at the time consolidated financial statements are prepared.

When available information confirms that specific loans or portions thereof are uncollectible, identified amounts are charged against the allowance for credit losses. The existence of some or all of the following criteria will generally confirm that a loss has been incurred: the loan is significantly delinquent and the borrower has not demonstrated the ability or intent to bring the loan current; the Company has no recourse to the borrower, or if it does, the borrower has insufficient assets to pay the debt; the estimated fair value of the loan collateral is significantly below the current loan balance, and there is little or no near-term prospect for improvement.

A provision for credit losses is charged against income and added to the allowance for credit losses based on regular assessments of the loan and lease portfolio. The allowance for credit losses is allocated to certain loan and lease categories based on the relative risk characteristics, asset classifications and actual loss experience of the loan and lease portfolio. While management has allocated the allowance for credit losses to various loan and lease portfolio segments, the allowance is general in nature and is available for the loan and lease portfolio in its entirety.

The ultimate recovery of all loans and leases is susceptible to future market factors beyond the Company's control. These factors may result in losses or recoveries differing significantly from those provided in the consolidated financial statements. In addition, regulatory agencies periodically review the Company's allowance for credit losses as an integral part of their examination process. As a result, the Company may be required to make additions to the allowance based on the regulatory agency's judgement about information available at the time of their examinations.

Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation, which is computed on the straight-line method over the estimated useful lives of the assets, which range from 35 to 40 years for buildings and 3 to 15 years for furniture, fixtures, and equipment. These assets are reviewed for impairment under Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 360, *"Property, Plant, and Equipment"* when events indicate that the carrying amount may not be recoverable. Gains or losses on dispositions are reflected in earnings.

Foreclosed Real Estate

Real estate properties acquired through, or in lieu of, foreclosure are to be sold and are initially recorded at the fair value of the properties, less estimated costs of disposal, which becomes the new cost basis. Any write-down to fair value at the time of transfer to foreclosed real estate is charged to the allowance for credit losses. Properties are evaluated regularly to ensure that the recorded amounts are supported by their current fair values. Any subsequent reductions in carrying values and revenue and expense from the operations of properties are recognized in the consolidated statement of income.

Mortgage Servicing Rights

Mortgage servicing rights (MSR's) are recognized as separate assets when rights are acquired through purchase or through sale of loans. Generally, purchased servicing rights are capitalized at the cost to acquire the rights. For sales of mortgage loans, a portion of the cost of originating the loan is allocated to the servicing right based on relative fair value. Capitalized servicing rights are amortized into noninterest income in proportion to, and over the period of, the estimated future net servicing income of the underlying financial assets.

MSR's are evaluated for impairment based upon the fair value of the rights as compared to amortized cost. Subsequent fair value measurements of single family MSR's, which are not traded in an active market with readily observable market prices, are determined by considering the present value of estimated future net servicing cash flows. Changes in the fair value of single family MSR's result from changes in (1) model inputs and assumptions and (2) modeled amortization, representing the collection and realization of expected cash flows and curtailments over time. The significant model inputs used to measure the fair value of single family MSR's include assumptions regarding market interest rates, projected prepayment speeds, discount rates, estimated costs of servicing, and other income and additional expenses associated with the collection of delinquent loans. Impairment is recognized through a valuation allowance to the extent that fair value is less than the recorded value. If the Company later determines that all or a portion of the impairment no longer exists, a reduction of the allowance will be recorded as an increase to income.

Servicing fee income is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal or a fixed amount per loan and are recorded as income when earned. The amortization of MSR's is netted against loan servicing fee income.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when: (1) the assets have been isolated from the Company; (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets; and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Income Taxes

Deferred tax assets and liabilities result from differences between the consolidated financial statement carrying amounts and the tax basis of assets and liabilities, and are reflected at currently enacted income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. The deferred tax provision represents the difference between the net deferred tax asset or liability at the beginning and end of the year. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. The determination of the realization of the deferred tax assets is highly subjective and dependent upon judgment concerning management's evaluation of both positive and negative evidence. The calculation of the Company's tax provision for federal income taxes is complex and requires the use of estimates and significant judgments in arriving at the amount of tax benefits to be recognized in the financial statements for a given tax position. It is possible that the tax benefits realized upon the ultimate resolution of a tax position may result in tax benefits that are significantly different from those estimated.

Management has reviewed all tax positions taken on all its income tax returns and has determined there to be no uncertain positions. Any interest and penalties would be recorded in income tax expense. Therefore, no further disclosures are deemed necessary.

The Bank is subject to routine audits by taxing jurisdictions; however, there are currently no audits in progress for any tax periods. Management believes it is no longer subject to income tax examinations for years prior to 2016.

Bank Owned Life Insurance (BOLI)

Bank owned life insurance policies are recorded at their cash surrender value or the amount that can be realized upon surrender of the policy. Income from BOLI is recognized when it is earned.

Goodwill

Goodwill represents costs in excess of net assets acquired and is evaluated at least annually for impairment, in accordance with FASB ASC 350, "*Intangibles – Goodwill and Other*." The Company tested goodwill for impairment as of December 31, 2020 using the Step 0 method to evaluate impairment and concluded that the fair value of the goodwill is greater than the carrying value, noting no impairment of recorded goodwill. No events have occurred since December 31, 2020 that would require re-evaluation.

Intangible Assets

Intangible assets include non-competition and licensing agreements, and customer contracts and lists. The non-competition and licensing agreements are amortized by the straight-line method over four to five years. The customer contracts and lists are amortized over a five year period, on either a straight-line method or performance basis. In 2020 and 2019, no circumstances existed that would indicate the intangible assets were potentially impaired. If such circumstances had existed, the assets would have been tested for impairment in accordance with FASB ASC 350, "*Intangibles – Goodwill and Other*."

Insurance Revenue

Insurance revenue consists of commissions and fees from the sales of insurance policies and related insurance services. Insurance commission income is recognized as of the effective date of the insurance policy, net of adjustments. Such adjustments are recorded when the amount can be reasonably estimated, which is generally in the period in which they occur. Commission revenues related to installment billings are recognized on the latter of effective or invoiced date. Contingent commissions are estimated and accrued relative to the recognition of corresponding commissions. Management determines a policy cancellation reserve based upon historical cancellation experience adjusted for any known circumstances. Subsequent commission adjustments were recognized upon receipt of notification from insurance companies concerning such adjustments.

Advertising

Advertising costs are generally charged to expense during the year in which they are incurred. Advertising expense was $211,000 and $278,000 for the years ended December 31, 2020 and 2019, respectively.

Derivative Financial Instruments

The Company enters into interest rate swaps to convert fixed rate long-term loans to floating rate loans. Management individually evaluates and converts fixed rate loans to floating rate loans depending on the size, maturity, and planned amortization of each loan. The interest rate swap instruments are recognized as derivatives on the balance sheet at their fair value. On the date the Company enters into the derivative contract, the derivative is designated by the Company as a hedge of fair value of a recognized asset or liability. Changes in the fair value of a derivative that is highly effective, and that is designated and qualifies as a fair value hedge, along with the loss or gain on the hedged asset or liability that is attributable to the hedged risk, are recorded in current period earnings.

The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedged transactions. This process includes linking all derivatives that are designated as fair value hedges to specific assets and liabilities on the balance sheet and statement of cash flows. The Company also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values of hedged items. When it is determined that a derivative is not highly effective as a hedge or that it has ceased to be a highly effective hedge, the Company discontinues hedge accounting prospectively, as discussed below. The Company discontinues hedge accounting prospectively when: (1) it is determined that the derivative is no longer effective in offsetting changes in the fair value of a hedged item; (2) the derivative expires or is sold, terminated, or exercised; or (3) management determines that designation of the derivative as a hedge instrument is no longer appropriate.

When hedge accounting is discontinued because it is determined that the derivative no longer qualifies as an effective fair value hedge, the derivative will continue to be carried on the balance sheet at its fair value with changes in its fair value recognized in current period earnings, and the hedged asset or liability will no longer be adjusted for changes in fair value.

Fair Value

The Company measures or monitors many of its assets and liabilities on a fair value basis. Fair value is used on a recurring basis for certain assets and liabilities in which fair value is the primary basis of accounting. Examples of these include derivative instruments and available for sale securities. Additionally, fair value is used on a non-recurring basis to evaluate assets or liabilities for impairment or for disclosure purposes. Examples of these non-recurring uses of fair value include certain loans held for sale accounted for on a lower of cost or market basis, impaired loans, foreclosed real estate, mortgage servicing rights, goodwill and long-lived assets.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability, known as an exit price, in an orderly transaction between market participants at the measurement date. Fair value estimates are based on quoted market prices, if available. If quoted market prices are not available, fair value estimates are based on quoted market prices of similar assets or liabilities or the present value of expected future cash flows and other valuation techniques. These valuations are significantly affected by discount rates, cash flow assumptions, risk and other assumptions used. Therefore, fair value estimates may not be substantiated by comparison to independent markets and are not intended to reflect the proceeds that may be realizable in an immediate settlement of the instruments.

Fair value is determined at one point in time and is not representative of future value. Fair value amounts also do not reflect the total value of a going concern organization. Management does not have the intention to dispose of a significant portion of its assets and liabilities and therefore, the unrealized gains or losses should not be interpreted as a forecast of future earnings and cash flows.

In support of these representations, FASB ASC 820, "*Fair Value Measurements and Disclosures*," establishes fair value hierarchy that prioritizes the information used to develop those assumptions. The fair value hierarchy is as follows:

> Level 1 inputs are observable inputs, based upon the quoted prices for identical instruments in active markets that are accessible as of the measurement date, and are to be used whenever available.
>
> Level 2 inputs are other types of observable inputs, such as quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are inactive; or other inputs that are observable or can be derived from or supported by observable market data. Level 2 inputs are to be used whenever Level 1 inputs are not available.
>
> Level 3 inputs are significantly unobservable and are supported by little or no market activity. These Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair values requires significant management judgment or estimation. Level 3 inputs are to only be used when Level 1 and Level 2 inputs are unavailable.

When determining the fair value measurements for assets and liabilities, the Company considers the principal or most advantageous market in which it would transact, and considers assumptions that market participants would use when pricing the asset or liability. When possible, the Company looks to active and observable markets to price identical assets or liabilities. When identical assets or liabilities are not traded in active markets, the Company looks to market observable data for similar assets and liabilities.

Recent Accounting Pronouncements

ASU 2020-06, "Debt – Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging – Contracts in Entity's Own Equity (Subtopic 815-40)." Issued in August 2020, Accounting Standards Update (ASU) No. 2020-06 addresses accounting complexities regarding convertible debt instruments and the derivatives scope exception for contracts in an entity's own equity. The ASU reduces the number of available accounting models for convertible debt instruments in an attempt to reduce complexity and variation in practice. Additionally, the ASU improves the applicability of the derivatives scope exception for contracts in an entity's own equity by clarifying settlement guidance and balance sheet classification. ASU 2020-06 is effective for the Company in fiscal years beginning after December 15, 2023. Management does not believe adoption of this ASU will have a material impact on the consolidated financial statements given that the Company does not currently hold any convertible debt instruments or any in-scope derivative contracts.

ASU 2020-04, "Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting." Issued in March 2020, ASU No. 2020-04 provides optional expedients and exceptions for accounting related to contracts, hedging relationships and other transactions affected by reference rate reform if certain criteria are met. ASU 2020-04 applies only to contracts, hedging relationships and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform and do not apply to contract modifications made and hedging relationships entered into or evaluated after December 31, 2022. The adoption of ASU 2020-04 did not significantly impact the Company's consolidated financial statements.

ASU 2021-01, "Reference Rate Reform (Topic 848)." Issued in January 2021, ASU No. 2021-01 clarifies the scope of Topic 848 so that derivatives affected by the discounting transition are explicitly eligible for certain optional expedients and exceptions in Topic 848. The Update additionally clarified that a receive-variable-rate, pay-variable-rate cross-currency interest rate swap may be considered an eligible hedging instrument in a net investment hedge if both legs of the swap do not have the same repricing intervals and dates as a result of reference rate reform. ASU 2021-01 was effective upon issuance and generally can be applied through December 31, 2022. See the discussion regarding the adoption of ASU 2020-04 below.

ASU 2019-12, "Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes." Issued in December 2019, ASU No. 2019-12 includes a number of provisions intended to simplify the accounting for income taxes. The update is effective for fiscal years after December 15, 2020. The Company is currently assessing the impact of this ASU on its accounting and disclosures.

ASU No. 2016-13, "Financial Instruments-Credit Losses." On June 16, 2017 the amendments in this ASU were issued to provide financial statement users with more decision-useful information about the current expected credit losses (CECL) on financial instruments that are not accounted for at fair value through net income, including loans held for investment, held-to-maturity debt securities, trade and other receivables, net investment in leases and other commitments to extend credit held by a reporting entity at each reporting date. The amendments in this ASU require a financial asset (or a group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of the financial asset(s) to present the net carrying value at the amount expected to be collected on the financial asset. The income statement will reflect the measurement of credit losses for newly recognized financial assets and for the expected increase or decrease of expected credit loss.

The ASU also requires credit losses relating to available-for-sale debt securities to be recorded through an allowance for credit losses rather than as a write-down. The initial allowance for the credit losses, for purchased available-for-sale securities, is added to the purchase price rather than reported as a credit loss expense. Subsequent changes in the allowance are recorded as credit loss expense. Interest income should be recognized based on the effective interest rate, excluding the discount attributed to the assessment of credit loss at acquisition.

The FASB issued *ASU 2019-04, "Codification Improvements to Topic 326, Financial Instruments-Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments."* Issued in April 2019, ASU No. 2019-04 clarifies a number of issues discussed at the June 2018 and November 2018 Credit Losses Transition Resource Group meetings. The clarifications address a variety of identified issues including but not limited to the treatment of accrued interest receivable as it relates to the allowance for credit losses, transfers between loan classifications and categories, recoveries, and using projections of future interest rate environments in expected cash flow calculations. Management is evaluating these clarifications concurrently with our assessment of ASU 2016-13.

The FASB issued *ASU 2019-10*, *"Financial Instruments-Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842)"* which provided certain clarifications to this update as well as extended the implementation date for non SEC Filer public business entities. The amendments are effective for annual reporting periods beginning after December 15, 2022. The Company is assessing the impact of this ASU on its accounting and disclosures.

The FASB issued *ASU 2019-11, "Financial Instruments-Credit Losses: Codification Improvements Topic 326."* Issued in November 2019, ASU No. 2019-11 clarifies and addresses specific issues about certain aspects of the amendments in ASU 2016-13. For the Company, the provisions of this ASU are effective for fiscal years beginning after December 15, 2022 including interim periods within those fiscal years.

Note 2 – Restricted Assets

On March 15, 2020, the Federal Reserve reduced the reserve requirement ratios to zero percent effective March 26, 2020. This action eliminated reserve requirements for all depository institutions. The elimination of reserve requirements was maintained through December 31, 2020 and therefore, no balance was required to be on deposit with the Federal Reserve Bank for the year ended December 31, 2020. Prior to March 26, 2020, Federal Reserve Board regulations required that the Company maintain certain minimum reserve balances on hand or on deposit with the Federal Reserve Bank, based on a percentage of deposits. The required minimum reserve balances at December 31, 2019 was $2,657,000. Due to sufficient balances maintained on premises, no balance was required to be on deposit with the Federal Reserve Bank for the year ended December 31, 2019.

Note 3 – Securities

Securities have been classified according to management's intent. The amortized cost of securities and their approximate fair value are as follows (dollars in thousands):

Securities Available for Sale	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2020				
SBA loans backed by U.S. government agency	$33,177	$--	$(378)	$32,799
State and municipal securities	394,850	31,405	(275)	425,980
Collateralized mortgage obligations	240,546	4,016	(1,190)	243,372
Mortgage-backed securities	101,637	2,116	(837)	102,916
Student loans backed by U.S. government agency	31,964	--	(266)	31,698
Corporate securities	19,500	92	(30)	19,562
Total	$821,674	$37,629	$(2,976)	$856,327
December 31, 2019				
SBA loans backed by U.S. government agency	$20,340	$--	$(110)	$20,230
State and municipal securities	234,612	9,136	(1,627)	242,121
Collateralized mortgage obligations	205,918	1,903	(1,413)	206,408
Mortgage-backed securities	51,951	961	(73)	52,839
Student loans backed by U.S. government agency	21,121	--	(632)	20,489
Corporate securities	--	--	--	--
Total	$533,942	$12,000	$(3,855)	$542,087

In determining that no securities were other-than-temporarily impaired, each security was individually evaluated for impairment by management. On a quarterly basis, the Company evaluates these securities for other-than-temporary impairment (OTTI). During 2020 and 2019, there was no OTTI recorded in earnings. The unrealized losses on securities are primarily due to elevated yield spreads at December 31, 2020 and 2019 as compared to yield relationships prevailing at the time specific securities were purchased.

At December 31, 2020, there were 25 securities in a continuous unrealized loss position more than twelve months. The following shows the unrealized gross losses and fair value of securities in the available for sale portfolio at December 31, 2020 and 2019, by length of time that individual securities in each category have been in a continuous loss position (dollars in thousands):

	Less Than 12 Months		**More Than 12 Months**		**Total**	
	Unrealized Gross Loss	**Fair Value**	**Unrealized Gross Loss**	**Fair Value**	**Unrealized Gross Loss**	**Fair Value**
December 31, 2020						
SBA loans backed by U.S. government agency	$(130)	$14,380	$(248)	$18,420	$(378)	$32,800
State and municipal securities	(275)	23,362	--	--	(275)	23,362
Collateralized mortgage obligations	(823)	59,193	(367)	38,348	(1,190)	97,541
Mortgage-backed securities	(837)	51,450	--	--	(837)	51,450
Student loans backed by U.S. government agency	(58)	14,400	(208)	17,297	(266)	31,697
Corporate securities	(30)	1,470	--	--	(30)	1,470
Total	$(2,153)	$164,255	$(823)	$74,065	$(2,976)	$238,320

	Less Than 12 Months		**More Than 12 Months**		**Total**	
	Unrealized Gross Loss	**Fair Value**	**Unrealized Gross Loss**	**Fair Value**	**Unrealized Gross Loss**	**Fair Value**
December 31, 2019						
SBA loans backed by U.S. government agency	$(110)	$20,230	$--	$--	$(110)	$20,230
State and municipal securities	(1,627)	68,809	--	--	(1,627)	68,809
Collateralized mortgage obligations	(646)	67,019	(767)	54,463	(1,413)	121,482
Mortgage-backed securities	(32)	7,544	(41)	5,866	(73)	13,410
Student loans backed by U.S. government agency	--	--	(632)	17,980	(632)	17,980
Corporate securities	--	--	--	--	--	--
Total	$(2,415)	$163,602	$(1,440)	$78,309	$(3,855)	$241,911

The contractual maturities of securities available for sale at December 31, 2020, are shown below (dollars in thousands):

	Available for Sale	
	Amortized Cost	**Fair Value**
Due in one year or less	$12,735	$12,755
Due from one year to five years	31,309	32,432
Due from five years to ten years	160,084	166,033
Due after ten years	617,546	645,107
Total	$821,674	$856,327

Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations, with or without call or prepayment penalties.

Securities carried at approximately $58.3 million and $60.4 million at December 31, 2020 and 2019, respectively, were pledged to secure public deposits, repurchase agreements, and other purposes required or permitted by law.

Sales of securities available for sale were as follows (dollars in thousands):

	2020	**2019**
Proceeds from sales	$51,334	$72,626
Gross realized gains included in earnings	$2,568	$932
Gross realized losses included in earnings	$(48)	$(160)

Note 4 – Loans and Leases

Loans and leases at December 31 consist of the following (dollars in thousands):

	2020	2019
Commercial and agricultural	$125,503	$62,206
Real estate:		
Residential 1-4 family	117,929	152,301
Commercial	318,832	329,479
Construction	73,497	62,531
Farmland	8,657	10,682
Municipal	94,730	85,967
Consumer	18,749	18,151
Dealer contracts	187,152	189,612
Leases	1,748	2,526
Credit card	4,173	5,086
Total loans and leases	$950,970	$918,541

The Paycheck Protection Program (PPP), established by the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), was implemented by the Small Business Administration (SBA) in an effort to assist small businesses adversely affected by the economic impact of COVID-19. In 2020, the Bank originated 840 PPP loans totaling $69,975,000. At December 31, 2020, PPP loan balances totaled $54.2 million, and are included in the commercial and agricultural portfolio segment. The SBA paid lenders fees for processing PPP loans. In 2020, the Company recognized $426,000 in net fees. At December 31, 2020, net deferred fees remaining totaled $1.6 million. On December 27, 2020, the life of PPP was extended by the Consolidated Appropriations Act, 2021 (CAA, 2021). The CAA, 2021 effectively creates a second round of PPP loans for eligible business. The Bank is participating in the CAA's second round of PPP lending, and began processing PPP loan applications in mid-January.

The following tables detail activity in the allowance for loan and lease losses (ALLL) by portfolio segment for the years ended December 31, 2020 and 2019 (dollars in thousands). While the allowance is allocated to specific loan and lease categories, the allowance is general in nature and is available for the loan and lease portfolio in its entirety.

		Real Estate					
2020	**Commercial and Agricultural**	**Residential 1-4 Family**	**Commercial, Construction, and Farmland**	**Municipal**	**Consumer and Other**	**Unallocated**	**Total ALLL**
Beginning balance	$980	$1,043	$5,123	$96	$3,181	$765	$11,188
Provision for loan and lease losses	720	13	1,309	18	1,011	103	3,174
Charge-offs	(301)	(31)	--	--	(910)	--	(1,242)
Recoveries	108	--	--	--	502	--	610
Ending balance	$1,507	$1,025	$6,432	$114	$3,784	$868	$13,730
Period end amount allocated to:							
Loans and leases individually evaluated for impairment	$--	$286	$17	$--	$1	$--	$304
Loans and leases collectively evaluated for impairment	1,507	739	6,415	114	3,783	868	13,426
Ending balance	$1,507	$1,025	$6,432	$114	$3,784	$868	$13,730

2019	Commercial and Agricultural	Real Estate: Residential 1-4 Family	Real Estate: Commercial, Construction, and Farmland	Municipal	Consumer and Other	Unallocated	Total ALLL
Beginning balance	$1,077	$1,136	$5,788	$128	$3,170	$--	$11,299
Provision for loan and lease losses	235	(93)	(665)	(32)	499	765	709
Charge-offs	(553)	--	--	--	(946)	--	(1,499)
Recoveries	221	--	--	--	458	--	679
Ending balance	$980	$1,043	$5,123	$96	$3,181	$765	$11,188
Period end amount allocated to:							
Loans and leases individually evaluated for impairment	$74	$187	$92	$--	$3	$--	$356
Loans and leases collectively evaluated for impairment	906	856	5,031	96	3,178	765	10,832
Ending balance	$980	$1,043	$5,123	$96	$3,181	$765	$11,188

The reserve for unfunded commitments totaled $256,000 as of December 31, 2020 and 2019.

The Company's recorded investment in loans and leases as of December 31, 2020 and 2019 related to each balance in the allowance for loan and lease losses by portfolio segment, and disaggregated on the basis of the Company's impairment methodology, was as follows (dollars in thousands):

	Commercial and Agricultural	Real Estate: Residential 1-4 Family	Real Estate: Commercial, Construction, and Farmland	Municipal	Consumer and Other	Total Loans and Leases
2020						
Loans and leases individually evaluated for impairment	$859	$4,695	$13,667	$--	$126	$19,347
Loans and leases collectively evaluated for impairment	124,644	113,234	387,319	94,730	211,696	931,623
Ending balance	$125,503	$117,929	$400,986	$94,730	$211,822	$950,970
2019						
Loans and leases individually evaluated for impairment	$1,647	$4,716	$6,625	$--	$139	$13,127
Loans and leases collectively evaluated for impairment	60,559	147,585	396,067	85,967	215,236	905,414
Ending balance	$62,206	$152,301	$402,692	$85,967	$215,375	$918,541

A summary of loans and leases by age, segregated by class of loans and leases, as of December 31, 2020 and 2019, was as follows (dollars in thousands):

2020	**Loans and Leases 30-89 Days Past Due**	**Loans and Leases 90 or More Days Past Due**	**Total Past Due Loans and Leases**	**Current Loans and Leases**	**Total Loans and Leases**	**Accruing Loans 90 or More Days Past Due**
Commercial and agricultural	$175	$63	$238	$125,265	$125,503	$--
Residential 1-4 family real estate	884	237	1,121	116,808	117,929	--
Commercial, construction, and farmland real estate	588	381	969	400,017	400,986	--
Municipal	--	--	--	94,730	94,730	--
Consumer and other	647	24	671	211,151	211,822	4
Total	$2,294	$705	$2,999	$947,971	$950,970	$4
2019						
Commercial and agricultural	$344	$100	$444	$61,762	$62,206	$--
Residential 1-4 family real estate	1,370	36	1,406	150,895	152,301	--
Commercial, construction, and farmland real estate	184	443	627	402,065	402,692	--
Municipal	75	--	75	85,892	85,967	--
Consumer and other	587	187	774	214,601	215,375	2
Total	$2,560	$766	$3,326	$915,215	$918,541	$2

The following table provides information with respect to nonaccrual loans as of the years ended December 31, 2020 and 2019 (dollars in thousands):

	2020	**2019**
Commercial and agricultural	$63	$100
Residential 1-4 family real estate	409	36
Commercial, construction, and farmland real estate	522	443
Municipal	--	--
Consumer and other	149	185
Total	$1,143	$764

The following table provides information with respect to impaired loans as of the years ended December 31, 2020 and 2019 (dollars in thousands):

2020	**Unpaid Contractual Principal Balance**	**Recorded Investment With No Allowance**	**Recorded Investment With Allowance**	**Total Recorded Investment**	**Related Allowance**	**Average Recorded Investment**
Commercial and agricultural	$895	$895	$--	$895	$--	$1,098
Residential 1-4 family real estate	4,706	1,805	2,901	4,706	286	4,742
Commercial, construction, and farmland real estate	13,693	13,406	287	13,693	17	7,538
Municipal	--	--	--	--	--	--
Consumer and other	126	3	123	126	1	137
Total	$19,420	$16,109	$3,311	$19,420	$304	$13,515
2019						
Commercial and agricultural	$1,647	$1,307	$340	$1,647	$36	$1,520
Residential 1-4 family real estate	4,716	3,064	1,652	4,716	187	4,889
Commercial, construction, and farmland real estate	6,625	5,690	935	6,625	38	5,564
Municipal	--	--	--	--	--	--
Consumer and other	139	--	139	139	3	146
Total	$13,127	$10,061	$3,066	$13,127	$264	$12,119

At December 31, 2020, there were no commitments to lend additional funds to borrowers whose loans have been impaired. Loans over 90 days past due still accruing interest totaled $4,000 at December 31, 2020 and $2,000 at December 31, 2019.

No interest income was recognized on a cash basis for impaired loans for the years ended December 31, 2020 and December 31, 2019. Two impaired loans from one relationship were in nonaccrual status as of December 31, 2020. In 2020, the Company did not record interest income on these loans. As of December 31, 2020, no additional interest income was accruing, and based on the collateral evaluation, the Company expects to collect the remaining principal balance due, which was $506,000.
The Company assigns risk rating classifications to its loans. These risk ratings are divided into the following groups:

> Pass – asset is considered of sufficient quality to preclude a Special Mention or an adverse rating. Pass assets generally are well protected by the current net worth and paying capacity of the obligor, by the value of the asset, or the underlying collateral.
> Special Mention – asset has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the Company's credit position at some future date. Special Mention assets are not adversely classified and do not expose an institution to sufficient risk to warrant adverse classification.
>
> Substandard – asset is inadequately protected by the current net worth and paying capacity of the obligor or by the collateral pledged, if any. Assets so classified have well-defined weaknesses. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.
>
> Doubtful – asset has the weaknesses of those classified Substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Credit quality indicators for the Company's loan portfolio as of December 31, 2020 and 2019 grouped according to internally assigned risk ratings and payment activity (dollars in thousands):

		Real Estate				
	Commercial and Agricultural	Residential 1-4 Family	Commercial, Construction, and Farmland	Municipal	Consumer and Other	Total Loans and Leases
2020						
Pass	$123,651	$112,178	$378,826	$94,730	$208,715	$918,100
Special Mention	631	3,179	16,095	--	2,665	22,570
Substandard	1,221	2,572	6,065	--	442	10,300
Doubtful	--	--	--	--	--	--
Total loans and leases	$125,503	$117,929	$400,986	$94,730	$211,822	$950,970
Restructured	$--	$--	$--	$--	$--	$--
Nonaccrual	63	409	522	--	149	1,143
Nonperforming	63	409	522	--	149	1,143
Performing	125,440	117,520	400,464	94,730	211,673	949,827
Total loans and leases	$125,503	$117,929	$400,986	$94,730	$211,822	$950,970

		Real Estate				
	Commercial and Agricultural	Residential 1-4 Family	Commercial, Construction, and Farmland	Municipal	Consumer and Other	Total Loans and Leases
2019						
Pass	$60,078	$146,879	$392,885	$85,967	$212,030	$897,839
Special Mention	463	3,052	2,713	--	2,804	9,032
Substandard	1,665	2,370	7,094	--	539	11,668
Doubtful	--	--	--	--	2	2
Total loans and leases	$62,206	$152,301	$402,692	$85,967	$215,375	$918,541
Restructured	$--	$--	$--	$--	$--	$--
Nonaccrual	100	36	443	--	185	764
Nonperforming	100	36	443	--	185	764
Performing	62,106	152,265	402,249	85,967	215,190	917,777
Total loans and leases	$62,206	$152,301	$402,692	$85,967	$215,375	$918,541

Restructured loans are defined as the period end outstanding balance of loans that previously underwent a troubled debt restructuring that are not performing in accordance with restructured terms.

The following table presents by class troubled debt restructurings (TDR's) recorded during the years ended December 31, 2020 and 2019 (dollars in thousands, except number of contracts):

2020	Number of Contracts	Pre-Modification Recorded Investment	Post-Modification Recorded Investment
Commercial and agricultural	1	$70	$70
Residential 1-4 family real estate	2	294	294
Commercial, construction, and farmland real estate	2	9,336	9,336
Municipal	--	--	--
Consumer and other	2	6	6
Total*	7	$9,706	$9,706

*Amounts exclude specific loan loss reserves

2019	Number of Contracts	Pre-Modification Recorded Investment	Post-Modification Recorded Investment
Commercial and agricultural	4	$658	$658
Residential 1-4 family real estate	1	195	195
Commercial, construction, and farmland real estate	3	4,640	4,640
Municipal	--	--	--
Consumer and other	--	--	--
Total*	8	$5,493	$5,493

*Amounts exclude specific loan loss reserves

The majority of TDR's are determined to be impaired prior to being restructured. As such, they are individually evaluated for impairment, unless they are considered homogeneous loans in which case they are collectively evaluated for impairment.

As of December 31, 2020 the Company had $304,000 in specific reserves on TDR's which were restructured during the year ended December 31, 2020. The primary type of concession granted in all TDR's during the year ended December 31, 2020 was maturity extensions. There were no TDR's that were restructured and subsequently defaulted during the year ended December 31, 2020.

On March 13, 2020, the FDIC issued a statement titled *Working with Customers Affected by the Coronavirus.* On April 7, 2020 the FDIC issued further interagency guidance titled *Interagency Statement on Loan Modifications and Reporting for*

Financial Institutions Working with Customers Affected by the Coronavirus (Revised). The Company worked with affected borrowers and offered payment deferments or interest only payments. During 2020, the Company accommodated 494 loans totaling $102.7 million. At December 31, 2020, there were 49 accommodated loans remaining totaling $2.7 million. Section 4013 of the CARES Act was implemented March 1, 2020, and provides that a qualified loan modification is exempt by law from classification as a TDR as defined by GAAP. Section 541 of the Consolidated Appropriations Act, 2021 extended Section 4013 relief until January 1, 2022.

Note 5 - Premises and Equipment

Components of premises and equipment at December 31 are as follows (dollars in thousands):

	2020	2019
Land	$5,133	$5,133
Buildings and improvements	18,816	18,436
Furniture	5,690	5,397
Equipment	4,624	4,900
Assets in process	377	5
Total cost	34,640	33,871
Less accumulated depreciation	(18,259)	(17,099)
Total premises and equipment	$16,381	$16,772

As of December 31, 2020 there were commitments to replace all ATM's as well as replace the Company's AS400. One half of the total ATM hardware and installation cost was paid in 2020 and the remaining ATM commitment was approximately $357,000. The amount committed to purchase the AS400 was approximately $186,000.

Depreciation expense was $1,780,000 and $1,890,000 in 2020 and 2019, respectively.

Note 6 – Goodwill and Other Intangible Assets

The Company recorded approximately $20,000 of goodwill and $144,000 of amortizable intangible assets in connection with the APX Insurance, LLC merger that occurred on July 1, 2020.

The amortization schedule of intangible assets in connection with acquisitions for future years ending December 31 is as follows (dollars in thousands):

2021	$1,023
2022	468
2023	29
2024	29
2025	15
	$1,564

Note 7– Mortgage Servicing Rights

Mortgage servicing rights (MSR's) are evaluated periodically for possible impairment based on the difference between the carrying amount and current fair value of the MSR's by risk stratification. If a temporary impairment exists, a valuation allowance is established for any excess of amortized cost over the current fair value through a charge to income. A direct write-down is performed when the recoverability of a recorded valuation allowance is determined to be remote. Unlike a valuation allowance, a direct write-down permanently reduces the carrying value of the MSR and the valuation allowance, precluding subsequent reversals.

Mortgage loans serviced for others are not included on the accompanying consolidated balance sheets. The unpaid principal balances of mortgage loans serviced for others were $444,039,000 and $405,107,000 at December 31, 2020 and 2019, respectively. Custodial escrow balances maintained in connection with the foregoing loan servicing were approximately $2,735,000 and $2,450,000 at December 31, 2020 and 2019, respectively. The weighted average amortization period of the Company's servicing rights was 4.6 years and 5.9 years in 2020 and 2019, respectively.

The following summarizes the activity in mortgage servicing rights for the years ended December 31 (dollars in thousands):

	2020	2019
Balance as of beginning of year	$2,147	$1,657
Originations	1,438	797
Amortization	(729)	(307)
Adjustment valuation	--	--
Balance as of end of year	$2,856	$2,147

The estimated fair value of the Company's MSR portfolio was $3,117,000 and $3,715,000 at December 31, 2020 and 2019, respectively. Fair value of mortgage servicing rights is based on market prices for comparable mortgage servicing contracts when available. In periods of market inactivity, fair value is determined using a discounted cash flow analysis, utilizing observable market data with unobservable adjustments. The analysis takes into consideration existing conditions in the secondary servicing markets, such as prices from recently executed servicing transactions and market discount rates. The adjustments made to observable data include adjustments for delinquency and loss rates.

Note 8 - Deposits

The composition of deposits is as follows (dollars in thousands):

	Deposits at December 31		Interest Expense for the Years Ended December 31	
	2020	2019	2020	2019
Noninterest bearing demand deposits	$365,553	$274,269	$--	$--
NOW accounts	348,099	271,314	938	1,188
Money market and savings accounts	773,104	618,005	1,278	1,809
Time deposits greater than $250,000	47,892	56,972	1,171	846
Time deposits $250,000 or less	185,323	202,787	3,460	3,491
Total	$1,719,971	$1,423,347	$6,847	$7,334

Time deposits at December 31, 2020 are scheduled to mature as follows (dollars in thousands):

	Up to $250,000	Greater than $250,000
0 to 90 days	$26,974	$5,828
91 to 365 days	63,118	14,081
1 year to 3 years	62,651	17,258
Over 3 years	32,580	10,725
Total	$185,323	$47,892

Total demand deposit overdrafts that have been reclassified to loans were $235,000 and $257,000 at December 31, 2020 and 2019, respectively.

The Company is a State of Washington Public Depository. All such public depositories are required to be members of Washington State's Public Deposit Protection Commission (PDPC). As such, when there is a loss of public funds at a member institution, those funds are in most instances insured to some extent by the federal government. To the degree a public deposit is not insured by the federal government, the PDPC will assess a claim first against the institution responsible for the loss and then against the pool of collateral held by other PDPC member institutions. Each institution is then responsible to pay its portion of the cost in proportion to the share of public funds held by that institution. The Company held $52,339,000 and $48,940,000 of public deposits as of December 31, 2020 and 2019, respectively.

Note 9 - Short-Term Borrowings

Securities sold under agreements to repurchase and line of credit advances from the Federal Home Loan Bank Des Moines (FHLB) represent short-term borrowings. At December 31, 2020 and 2019 there were no outstanding balances for credit advances.

The following is a summary of such short-term borrowings for the years ended December 31 (dollars in thousands):

	2020	2019
Average balance during the year	$16,349	$10,407
Average interest rate during the year	0.23%	0.34%
Maximum month end balance during the year	$20,885	$14,848

Securities sold under agreements to repurchase are secured by specific securities which, in all cases, the Company maintains control. The securities' underlying agreements to repurchase entered into by the Company are for the same securities originally sold, with a one-day maturity.

Balance at December 31:	2020	2019
Securities under agreements to repurchase	$16,395	$10,154
Weighted average interest rate at year end	0.17%	0.34%
Carrying value of underlying securities	$16,578	$18,229
Market value of underlying securities	$18,058	$18,811

Note 10 - Long-Term Borrowings

There were no long-term borrowings at December 31, 2020 and 2019.

Note 11 - Income Taxes

Income taxes are comprised of the following for the years ended December 31 (dollars in thousands):

	2020	2019
Current	$4,411	$3,555
Deferred	(469)	283
State income taxes	77	56
Total income taxes	$4,019	$3,894

The following is a reconciliation of the statutory income tax rate to the effective income tax rate for the years ended December 31 (dollars in thousands):

	2020		2019	
	Amount	Percent of Pretax Income	Amount	Percent of Pretax Income
Income tax at statutory rates	$6,203	21.0%	$5,731	21.0%
Increase resulting from:				
State income tax	61	0.2%	45	0.2%
Decrease resulting from:				
Tax-exempt income	(1,807)	(6.1)%	(1,781)	(6.5)%
Tax credits	(551)	(1.9)%	(502)	(1.8)%
Prior year adjustment	--	0.0%	347	1.2%
Other	113	0.4%	54	0.2%
Total income tax expense	$4,019	13.6%	$3,894	14.3%

The tax effects of temporary differences that give rise to significant portions of deferred tax assets and liabilities at December 31 are as follows (dollars in thousands):

	2020	2019
Deferred Tax Assets:		
Allowance for credit losses	$2,883	$2,350
Deferred compensation	610	566
Other	573	416
Total deferred tax assets	4,066	3,332
Deferred Tax Liabilities:		
Accumulated depreciation and amortization	$1,539	$1,598
Deferred loan costs	653	478
Unrealized gain on securities available for sale	7,277	1,711
Mortgage servicing rights	600	451
FHLB dividends	136	137
Total deferred tax liabilities	10,205	4,375
Net deferred tax (liabilities)	$(6,139)	$(1,043)

Note 12 – Related-Party Transactions

In the ordinary course of business the Company has transactions with related parties, including but not limited to: directors, principal officers, their immediate families, and affiliated companies in which they are principal shareholders. In the opinion of management, all related party transactions have been on the same terms as the terms for comparable transactions with outside parties.

The following table details the loan activity with related parties at December 31 (dollars in thousands):

	2020	2019
Beginning balance	$18,195	$21,551
New loans or advances during period	15,898	11,131
Repayments during period	(13,953)	(14,487)
Aggregate amount outstanding	$20,140	$18,195
Loan commitments	$23,804	$19,888
Related party deposits	$8,760	$7,713

Note 13 - Commitments and Contingencies

Credit

The Company is party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. These instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized on the consolidated balance sheets.

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for balance sheet instruments.

A summary of the Company's commitments at December 31 is as follows (dollars in thousands):

	2020	2019
Commitments to extend credit:		
Credit card lines	$34,863	$33,517
Commercial real estate, construction and development	56,058	53,713
Home equity lines of credit	52,163	47,433
Other	76,486	71,882
Total commitments to extend credit	$219,570	$206,545
Standby letters of credit	$65	$80

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company's experience has been that between approximately 10% and 25% of loan commitments are drawn upon by customers. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the customer. Associated with the unfunded commitment, the Company has established a loss reserve in the amount of $256,000 as of December 31, 2020 and 2019.

Standby Letters of Credit

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third-party. Those guarantees are primarily issued to support public and private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. In certain circumstances collateral is deemed necessary to secure the commitment.

Legal

Because of the nature of its activities, the Company is subject to various pending and threatened legal actions which arise in the ordinary course of business. In the opinion of management, liabilities arising from these claims, if any, will not have a material effect on the financial position of the Company.

Borrowing Facilities

The Company has agreements with commercial banks for lines of credit totaling $74,000,000, none of which was used at December 31, 2020. The Company has a credit line with the Federal Home Loan Bank of Des Moines for 45% of assets. As of December 31, 2020 the credit line was approximately $897,429,000 none of which was used at December 31, 2020. This line is secured with a Blanket Pledge Agreement with the Federal Home Loan Bank (Note 9).

Investments

The Company entered into a subscription agreement to purchase four units at $500,000 per unit for an interest in Homestead Equity Fund A Washington Limited Partnership (HEFA-WA) for which funding has been completed. HEFA-WA has been formed to invest in partnerships or limited liability companies, which will acquire, construct, rehabilitate, operate, and dispose of low income housing developments which are located in Washington State. The housing developments will be eligible for the federal low income housing tax credit and, in some cases, the historic rehabilitation tax credit available under the Internal Revenue Code of 1986, as amended. The Company accounts for the investment under the equity method in accordance with ASC 323, "*Investments – Equity Method and Joint Ventures,*" and a pass-through loss of $6,000 and $66,000 was recorded during 2020 and 2019, respectively. At December 31, 2020 and 2019, the Company's partnership equity was $2,000 and $1,000, respectively, and is included in other assets.

The Company entered into a subscription agreement to purchase one unit at $1,000,000 for an interest in Homestead Western Communities Fund Limited Partnership (HWCF) for which funding has been completed. HWCF has been formed to invest in partnerships or limited liability companies, which will acquire, construct, rehabilitate, operate, and dispose of low income housing developments which are located in the states of Oregon, Washington, Idaho, and California. The housing developments will be eligible for the federal low income housing tax credit and, in some cases, the historic rehabilitation tax credit available under the Internal Revenue Code of 1986, as amended. The Company accounts for the investment under the equity method in accordance with ASC 323, "*Investments – Equity Method and Joint Ventures,*" and a pass-through loss of $15,000 and $146,000 was recorded during 2020 and 2019, respectively. At December 31, 2020 and 2019, the Company's partnership equity was $5,000 and $30,000, respectively.

The Company entered into a subscription agreement to purchase five units at $1,000,000 per unit for an interest in Homestead Equity Fund X Limited Partnership (HEF-X). HEF-X has been formed to invest in partnerships or limited liability companies, which will acquire, construct, rehabilitate, operate, and dispose of low income housing developments primarily located in the states of Oregon, Washington, Idaho, and California. The housing developments will be eligible for the federal low income housing tax credit and, in some cases, the historic rehabilitation tax credit available under the Internal Revenue Code of 1986, as amended. The Company accounts for the investment under the equity method in accordance with ASC 323, "*Investments – Equity Method and Joint Ventures,*" and a pass-through loss of $611,000 and $608,000 was recorded during 2020 and 2019, respectively. At December 31, 2020 and 2019, the Company's partnership equity was $2,255,000 and $2,753,000, respectively.

The Company's remaining contractual contribution for Homestead Equity Fund X (HEF-X) of $88,000 is expected to be paid in 2021.

The Company entered into a subscription agreement to purchase one and a half units at $1,000,000 per unit for an interest in CREA Corporate Tax Credit Fund 72, LLC (CREA). CREA has been formed to invest in partnerships or limited liability companies, which will acquire, construct, rehabilitate, operate, and dispose of low income housing developments nationwide. The housing developments will be eligible for the federal low income housing tax credit and, in some cases, the historic rehabilitation tax credit available under the Internal Revenue Code of 1986, as amended. The Company accounts for the investment under the equity method in accordance with ASC 323, "*Investments – Equity Method and Joint Ventures,*" and a pass-through loss of $57,000 and $5,000 was recorded during 2020 and 2019, respectively. At December 31, 2020 and 2019, the Company's partnership equity was $30,000 and $41,000, respectively.

The Company's remaining contractual contribution for CREA Corporate Tax Credit Fund 72, LLC (CREA) of $1,275,000 is expected to be paid as follows (dollars in thousands):

2021	$820
2022	386
2023	2
Thereafter	67
	$1,275

Employment Agreements

The Company has entered into employment contracts with certain key employees, which provide for contingent payments subject to future events. These agreements are discussed in Note 15.

Derivatives

For the years ended December 31, 2020 and 2019, the fair value of the hedged loans of $241,000 and $172,000, respectively, are recorded in loans held for investment and the related swap liability is recorded in other liabilities at $237,000 and $172,000, respectively. The Company pledged a certificate of deposit due from the counterparty of the hedging instruments as collateral for the swap liability. This certificate of deposit had a balance of $100,000 at December 31, 2020 and 2019, respectively. The notional amounts of the interest rate swaps were $1,671,000 and $2,025,000 at December 31, 2020 and 2019, respectively. The Company recognized no loss in 2020 and 2019 which represents the ineffective portion of all fair value hedges. All components of each derivative's gain or loss are included in the assessment of hedge effectiveness, unless otherwise noted.

COVID-19

The Company anticipates that impacts of COVID-19 on Company operations as of December 31, 2020, will continue for the foreseeable future. Several industries may continue to be adversely impacted, and the Company's customers may be unable to fulfill their contractual obligations to the Company. This could cause the Company to experience material adverse effects, which may include all or a combination of valuation impairments on the Company's intangible assets, investments, loans, loan servicing rights, or deferred tax assets.

Note 14 – Significant Concentration of Credit Risk

Most of the Company's business activity is with customers located in the state of Washington. Investments in state and municipal securities involve government entities primarily within the state. At December 31, 2020, 7.72% of total loans outstanding were for construction related projects. Of those, 1.24% of total loans outstanding were residential developed lot loans to consumers.

Loans are generally limited, by state banking regulations, to 20% of the Company's capital to any one borrower, excluding accumulated other comprehensive income. At December 31, 2020 the Company's legal lending limit was $43,081,000. Standby letters of credit were granted primarily to commercial borrowers. The Company, as a matter of practice, generally does not extend credit to any single borrower or group of related borrowers in excess of $24,000,000. At December 31, 2020, no borrowing relationship was in excess of this limit.

Note 15 - Employee Compensation Plans

Stock Option Plan

The Company has a stock option plan under which certain key employees have been granted options to purchase shares of common stock. Under the plan, the Company may grant options of its common stock to certain key employees, of which 237,599 were available for grant at December 31, 2020. Options have an exercise price equal to the fair market value of the stock as of the date of grant. In 2018 the company adopted a vesting schedule with no vesting on grant date, and 20% vesting on each of the five subsequent anniversaries of the grant. Options have a maximum contractual term of ten years. The Black-Scholes model requires the use of assumptions noted in the following table. The dividend yield is based on the Company's actual and expected dividends paid to shareholders. The Company uses historical data to estimate the expected life, which represents the period of time the options are expected to be outstanding. Expected stock price volatility is based on the Company's historical stock price, adjusted for dividends. The risk-free interest rate is based on the U.S. Treasury yield curve rate in effect at grant date with average equivalent term.

The fair value of each option was estimated on the date of grant based on the Black-Scholes option pricing model and used the following weighted average assumptions:

	2020	**2019**
Dividend yield	2.20%	1.97%
Expected life	6.5 years	6.6 years
Risk-free interest rate	1.21%	2.20%
Expected volatility	20.36%	19.03%

A summary of the status of the Company's stock option plan as of December 31, 2020, and changes during the years ending on those dates, is presented below:

2020	Shares	Weighted Average Exercise Price	Weighted Average Fair Value At Grant
Outstanding at beginning of year	80,292	$52.46	$10.13
Granted	15,525	54.97	8.65
Exercised	5,401	30.40	4.89
Expired	--	--	--
Outstanding at end of year	90,416	$54.21	$10.29

2020	Shares	Weighted Average Exercise Price	Weighted Average Fair Value At Grant
Vested and expected to vest	83,400	$54.21	$10.29
Options exercisable at year end	43,807	$51.83	$10.25

The following information summarizes information about stock options outstanding and exercisable at December 31, 2020:

	Options Outstanding			**Options Exercisable**		
Range of Exercise Prices	**Number Outstanding**	**Weighted Average Remaining Contractual Life (Years)**	**Weighted Average Exercise Price**	**Number Exercisable**	**Weighted Average Remaining Contractual Life (Years)**	**Weighted Average Exercise Price**
$ 15.00 – 25.00	475	0.80	$20.79	475	0.80	$20.79
$ 25.01 – 40.00	9,000	3.35	$34.92	9,000	3.35	$34.92
$ 40.01 – 50.00	6,275	9.67	$44.37	--	--	$--
$ 50.01 – 58.50	55,416	7.05	$55.99	31,132	6.84	$55.83
$ 58.51 – 70.00	19,250	8.73	$62.16	3,200	8.12	$65.10
Balance at December 31, 2020	90,416	7.19	$54.21	43,807	6.15	$51.83

The total intrinsic value of the options exercised during 2020 and 2019 was $178,000 and $207,000, respectively. The total intrinsic value of options outstanding was $226,000 and $860,000 in 2020 and 2019, respectively. Weighted average remaining contractual life of options vested and expected to vest is 6.51 years. Total proceeds from options exercised in 2020 and 2019 were $164,000 and $309,000 respectively. As a result of disqualifying dispositions of options exercised, the Company did not record a tax benefit in 2020, and recorded a tax benefit of $6,000 in 2019.

At December 31, 2020, unrecognized compensation expense related to unvested options totaled $413,000 and is expected to be recognized over a weighted average period of thirty months. During 2020, 12,316 options vested with a weighted average fair value at grant date of $10.30. During 2019, 8,750 options vested with a weighted average fair value at grant date of $10.47.

Restricted Stock Plan

Restricted stock awards are generally scheduled to vest over a 3 to 5 year period, with the unearned compensation related to restricted stock amortized to expense on a dynamic prorated straight-line basis. Unrecognized compensation cost related to unvested restricted stock awards in 2020 and 2019 totaled $31,000 and $53,000, respectively. Total expense recognized by the Company for restricted stock awards for the year ended December 31, 2020 and 2019 was $21,000 and $59,000, respectively.

The following table summarizes the Company's restricted stock awards activity:

	Shares	Weighted Average Fair Value At Grant
Outstanding at December 31, 2018	2,980	$51.41
Granted	200	59.45
Vested	(1,580)	47.64
Forfeited	(50)	58.50
Outstanding at December 31, 2019	1,550	$56.38
Granted	--	$--
Vested	(960)	52.95
Forfeited	--	--
Outstanding at December 31, 2020	590	$61.95

Scheduled vesting for outstanding restricted stock awards as of December 31, 2020 is as follows:

			Year Ended			
	2021	**2022**	**2023**	**2024**	**2025**	**Total**
Scheduled vesting – restricted stock awards	350	100	100	40	--	590

Profit-Sharing Plans

The Company has a 401(k) employee benefit plan for those employees who meet eligibility requirements set forth in the plan. Eligible employees may contribute up to 100% of their compensation, subject to certain IRS limits. The Company provides a Safe Harbor match of 100% of the first 4% contributed by participants, subject to certain IRS limits. Additionally, matching contributions may be made by the Company pursuant to a prescribed formula based on the Company's achievement of certain performance goals. The Company contributed $578,000 and $551,000 in 2020 and 2019, respectively.

Incentive compensation is awarded to certain employees based on the financial performance of the Company. Cash bonuses were awarded pursuant to a formula targeted on the Company achieving certain performance goals for the years ended in 2020 and 2019, with the amounts awarded in 2021 and 2020. Amounts awarded under the plan for 2020 and 2019 were $893,000 and $752,000, respectively.

Deferred Compensation Plan

The Company entered into various deferred compensation arrangements with key employees. The agreements provide for either employee and Company matching contributions or employer only contributions. At December 31, 2020 and 2019, the Company had a recorded liability in the amount of $2,903,000 and $2,706,000 respectively. The Company contributed $172,000 and $161,000 in 2020 and 2019, which represented plan earnings or planned contributions subject to vesting criteria in accordance with the deferred compensation agreements.

Insurance

The Company provides certain health care, disability, and life insurance benefits for current employees. The cost of health care benefits for employees is recognized as expense when paid. Life insurance benefits for employees are provided through an insurance company whose premiums are based on the benefits paid during the year. The Company recognizes the cost of providing such benefits by expensing the monthly insurance premiums. For 2020 and 2019, the cost of providing health care, disability, and life insurance benefits was $1,616,000 and $1,724,000, respectively.

Note 16 - Regulatory Matters

The Company is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's consolidated financial statements. Under capital adequacy guidelines of the regulatory framework for prompt corrective action, the Company must meet specific capital adequacy guidelines that involve quantitative measures of the Company's assets, liabilities, and certain off-balance sheet items, as calculated under regulatory accounting practices. The Company's capital classification is also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company maintain minimum amounts and ratios of Tier 1 capital to total average assets and minimum ratios of Tier 1 and total capital to risk-weighted assets.

In July 2013, the Board of Governors of the Federal Reserve System and the Federal Deposit Insurance Corporation (FDIC) approved the final rules implementing the Basel Committee on Banking Supervision's capital guidelines for U.S. banks (Basel III). Under the final rules, which became effective for the Company on January 1, 2015 and are subject to a phase-in period through January 1, 2019, minimum requirements increased for both the quantity and the quality of capital held by the Company. The rules include a new Common Equity Tier 1 capital to risk-weighted assets ratio (CET1 ratio) of 4.5% and a capital conservation buffer of 2.5% above the regulatory minimum risk-based capital requirements, which fully phased in, effectively results in a minimum CET1 ratio of 7.0%. Basel III also (i) raises the minimum ratio of Tier 1 capital to risk-weighted assets from 4.0% to 6.0% (which, with the capital conservation buffer, effectively results in a minimum Tier 1 capital to risk-weighted assets ratio of 8.5% when fully phased in); (ii) effectively results in a minimum total capital to risk-weighted assets ratio of 10.5% (with the capital conservation buffer fully phased in); and (iii) requires a minimum leverage ratio of 4.0%. Basel III also makes changes to risk weights for certain assets and off-balance sheet exposures.

As of December 31, 2020, the most recent notification from the Company's regulator categorized the Company as well capitalized under the regulatory framework for prompt corrective action.

The federal banking agencies jointly issued the CBLR final rule effective January 1, 2020. The Company elected to use the community bank leverage ratio (CBLR) framework effective January 1, 2020, which allows qualifying community banking organizations to calculate a leverage ratio to measure capital adequacy. A CBLR bank will be deemed to have met the well-capitalized ratio requirements and be in compliance with the general applicable capital rule. A qualifying community banking organization is defined as having less than $10 billion in total consolidated assets, a leverage ratio greater than 9%, off-balance sheet exposures of 25% or less of total consolidated assets, and trading assets and liabilities of 5% or less of total consolidated assets.

The Company meets all CBLR requirements as of December 31, 2020.

Restrictions on Retained Earnings

The Company is restricted from paying dividends in an amount that would decrease regulatory capital below the minimum amounts shown above.

Note 17 - Fair Value

The Company is required to disclose the estimated fair value of financial instruments, both assets and liabilities on and off the balance sheet, for which it is practicable to estimate fair value. These fair value estimates are made at December 31, 2020 based on relevant market information and information about the financial instruments. Fair value estimates are intended to represent the price at which an asset could be sold, or the price for which a liability could be settled. However, given there is no active market or observable market transactions for many of the Company's financial instruments, the Company has made estimates of many of these fair values. Those estimates, which are subjective in nature, involve uncertainties and matters of significant judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimated values.

Fair Value of Financial Instruments

The carrying amounts and estimated fair value of the Company's financial instruments are as follows (dollars in thousands):

		December 31, 2020		December 31, 2019	
	Level	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets					
Cash and cash equivalents	1	$135,725	$135,725	$141,393	$141,393
Securities available for sale	2	856,327	856,327	542,087	542,087
FHLB and PCBB stock	2	2,220	2,220	2,063	2,063
Loans held for sale	2	1,470	1,470	1,804	1,804
Loans and leases, net	3	937,240	945,851	907,353	904,733
Mortgage servicing rights	3	2,856	3,117	2,147	3,715
Accrued interest receivable	2	7,829	7,829	5,625	5,625
Bank Owned Life Insurance	2	15,908	15,908	15,447	15,447
Financial Liabilities					
Deposits	3	$1,719,971	$1,593,292	$1,423,347	$1,264,069
Borrowings	3	16,395	16,395	10,154	10,143
Interest rate swaps	2	237	237	172	172
Accrued interest payable	2	612	612	765	765

The Company assumes interest rate risk as a result of its normal operations. As a result of interest rate level changes, fair values of the Company's financial instruments may change in a direction that is either favorable or unfavorable to the Company. Management attempts to match maturities of assets and liabilities to the extent believed necessary to minimize interest rate risk. However, borrowers with fixed rate obligations are less likely to prepay in a rising rate environment and more likely to prepay in a falling rate environment. Conversely, depositors who are receiving fixed rates are more likely to withdraw funds before maturity in a rising rate environment and less likely to do so in a falling rate environment. Management monitors rates and maturities of assets and liabilities, and attempts to minimize interest rate risk by adjusting terms of new loans and deposits and by investing in securities with terms that mitigate the Company's overall interest rate risk.

The following methods and assumptions were used by the Company in estimating the fair value of financial instruments:

Securities Available for Sale

Securities totaling $856,327,000 are reported at fair value utilizing Level 2 inputs for available for sale securities. The fair values of securities utilizing Level 2 inputs are based on quoted market prices of similar instruments and dealer quotes or determined utilizing a present value income model that utilized observable market-based inputs, as described in Note 1. The fair values were obtained from an independent pricing service and internally validated. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus, prepayment speeds, credit information, and the bond's terms and conditions, among other things.

Interest Rate Swap Derivatives

The fair values of interest rate swap derivatives are estimated by an independent third-party using a discounted cash flow method based on current incremental rates for similar types of arrangements. For purposes of potential valuation adjustments to its derivative positions, the Company evaluates the credit risk of its counterparties as well as that of the Company. Accordingly, the Company has considered factors such as the likelihood of default by the Company and its counterparties, its net exposures, and remaining contractual life, among other things, in determining if any fair value adjustments related to credit risk are required. Counterparty exposure is evaluated by considering the amounts of collateral securing the position. The Company reviews its counterparty exposure on a regular basis, and when necessary, appropriate business actions would be taken to adjust the exposures. The Company also uses this approach to estimate its own credit risk on derivative liability positions. To date, the Company has not realized any significant losses due to a counterparty's inability to pay any net uncollateralized position. The change in value of derivative assets and derivative liabilities attributable to credit risk was not significant during the reported periods.

		Fair Value Measurement Using		
December 31, 2020	**Assets/(Liabilities) Total**	**Level 1**	**Level 2**	**Level 3**
SBA loans backed by U.S. government agency	$32,799	$--	$32,799	$--
State and municipal securities	425,980	--	425,980	--
Collateralized mortgage obligations	243,372	--	243,372	--
Mortgage-backed securities	102,916	--	102,916	--
Student loans backed by U.S. government agency	31,698	--	31,698	--
Corporate securities	19,562	--	19,562	--
Total securities available for sale	$856,327	$--	$856,327	$--
Interest rate swap derivatives	$(237)	$--	$(237)	$--
December 31, 2019				
SBA loans backed by U.S. government agency	$20,230	$--	$20,230	$--
State and municipal securities	242,121	--	242,121	--
Collateralized mortgage obligations	206,408	--	206,408	--
Mortgage-backed securities	52,839	--	52,839	--
Student loans backed by U.S. government agency	20,489	--	20,489	--
Corporate securities	--	--	--	--
Total securities available for sale	$542,087	$--	$542,087	$--
Interest rate swap derivatives	$(172)	$--	$(172)	$--

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

As of December 31, 2020 and 2019, the Company did not hold any significant assets or liabilities measured at fair value on a nonrecurring basis.

Note 18 – Other Comprehensive Income

Net unrealized gains and losses on available for sale securities reported in other comprehensive income was comprised of the following (dollars in thousands):

	Before Tax Amount	Tax Effect	Net of Tax Amount
Year Ended December 31, 2020			
Unrealized holding gains/(losses) arising during the year	$23,988	$(5,037)	$18,951
Reclassification adjustment for gains/(losses) realized in net income	2,520	(529)	1,991
Net unrealized gains	$26,508	$(5,566)	$20,942
Year Ended December 31, 2019			
Unrealized holding (losses)/gains arising during the year	$10,984	$(2,308)	$8,676
Reclassification adjustment for gains/(losses) realized in net income	772	(162)	610
Net unrealized (losses)	$11,756	$(2,470)	$9,286

Note 19 – Shareholders' Equity and Earnings per Common Share

Earnings per Common Share

The following table presents a reconciliation of the number of shares used in the calculation of basic and diluted earnings per common share (dollars in thousands, except share and per share amounts):

	2020	2019
Distributed earnings allocated to common stock	$13,506	$5,357
Undistributed earnings allocated to common stock	12,015	18,039
Net earnings allocated to common stock	$25,521	$23,396
Weighted average common shares outstanding - Basic	3,971,788	4,102,266
Dilutive effect of options outstanding	2,986	9,860
Weighted average common shares outstanding - Diluted	3,974,774	4,112,126
Earnings per common share – Basic	$6.43	$5.70
Earnings per common share – Diluted	$6.42	$5.69
"Out of the money" stock options	74,666	2,000

Stock Repurchase Plans

From time to time, the Company's board of directors has authorized stock repurchase plans. In general, stock repurchase plans allow the Company to proactively manage its capital position and return excess capital to shareholders. Shares purchased under such plans also provide the Company with shares of common stock necessary to satisfy obligations related to stock compensation awards.

On October 1, 2019, the Company announced a share repurchase plan allowing the Company to repurchase up to 500,000 shares. Under the repurchase plan, the Company offered to purchase 500,000 shares via a tender offer at a price of $62.00 per share. The repurchase plan did not require the Company to repurchase a specific number of shares and the tender offer expired on November 15, 2019.

No shares were repurchased in 2020. In 2019, the Company announced it had repurchased 159,805 shares at a cost of $9,908,000.

Note 20 – Revenue from Contracts with Customers

All of the Company's revenue from contracts with customers in the scope of ASC 606 is recognized in noninterest income. The following table presents the Company's sources of noninterest income for the years ended December 31, 2020 and 2019 (dollars in thousands). Items outside of the scope of ASC 606 are noted as such.

	2020	2019
Noninterest income:		
Service charges on deposit accounts	$1,247	$1,914
Mortgage banking operations (a)	7,621	3,390
Net (loss) on sales of securities available for sale (a)	2,520	772
Brokerage commissions	1,002	882
Insurance commissions and fees	4,616	4,579
Net interchange income	2,246	1,549
BOLI cash value (a)	461	437
Remaining other (a)	1,303	1,258
Total noninterest income	$21,016	$14,781

(a) Not within scope of ASC 606

Deposit Service Charges

The Company earns fees from its deposit customers for account maintenance, transaction-based and overdraft services. Account maintenance fees consist primarily of account fees and analyzed account fees charged on deposit accounts on a monthly basis. The performance obligation is satisfied and the fees are recognized on a monthly basis as the service period is completed. Transaction-based fees on deposit accounts are charged to deposit customers for specific services provided to the customer, such as non-sufficient funds fees, overdraft fees, and wire fees. The performance obligation is completed as the transaction occurs and the fees are recognized at the time each specific service is provided to the customer.

Debit and Credit Card Interchange Fee Income and Expenses

Debit and credit interchange income represent fees earned when a card issued by the Company is used. The Company earns interchange fees from debit cardholder transactions through the *Visa* payment network. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to the cardholder. The performance obligation is satisfied and the fees are earned when the cost of the transaction is charged to the cardholders' card. Certain expenses directly associated with the credit and debit card are recorded on a net basis with the interchange income.

Brokerage Revenue

Brokerage fees consist of fees earned from advisory asset management, trade execution and administrative fees from investments. Advisory asset management fees are variable, since they are based on the underlying portfolio value, which is subject to market conditions and asset flows. Advisory asset management fees are recognized quarterly and are based on the portfolio values at the end of each quarter. Brokerage accounts are charged commissions at the time of a transaction and the commission schedule is based upon the type of security and quantity. The amount of revenue earned is determined by the value and type of each instrument sold and is recognized at the time the policy or contract is written. In addition, revenues are earned from selling insurance and annuity policies.

Insurance Revenue

Insurance revenue consists of commissions and fees from the sales of insurance policies and related insurance services. Insurance commission income is recognized at the later of the effective date of the insurance policy or billing date, net of adjustments. Such adjustments are recorded when the amount can be reasonably estimated, which is generally in the period in which they occur. Commission revenues related to installment billings are recognized on the latter of effective or invoiced date. Contingent commissions are estimated and accrued relative to the recognition of corresponding commissions. Management determines a policy cancellation reserve based upon historical cancellation experience adjusted for any known circumstances. Subsequent commission adjustments were recognized upon receipt of notification from insurance companies concerning such adjustments.

Note 21 – Subsequent Events

The Company performed an evaluation of subsequent events through March 15, 2021, the date these financial statements were available to be issued.

On January 19, 2021, the Company’s Board of Directors approved a dividend of $0.75 per share, payable and paid on February 8, 2021, to shareholders of record as of January 29, 2021.

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Directors and Officers

Board of Directors
Lyman Boyd, Chairman
Brian Nelson, Past Chairman
Kris Loomis, CPA
Greg Oakes
John Doyle
Keith Wiggins
Mike Neff

Administrative Officers
Greg Oakes, President & Chief Executive Officer
Mike Lundstrom, CPA/CIA, EVP & Chief Financial Officer
Jenny Pulver, EVP & Chief Retail Banking Officer
Steve Vradenburg, EVP & Chief Lending Officer
Sue Ozburn, EVP & Chief Information Officer

Mitchell, Reed & Schmitten Insurance Board of Directors
Greg Oakes, Chairman
Lori Reed
Lyman Boyd
Jim Gibbons
Laura Mounter
Brent Schmitten
Marc Heminger

Finance
Kelly Walsh, CPA, AVP & Senior Accountant

Credit Administration
Ann Rankin, AVP & Credit Operations Supervisor
Kyle Bruggman, AVP & Assistant Credit Administrator

Internal Audit
Amanda Brown, AVP & Senior Internal Auditor

Compliance
Deidra Anderson, VP & Compliance Officer

Retail Operations and Personnel
Jennifer West, VP & Human Resources Director
Jeff Burton, VP & Retail Operations Officer
Christy Tomlinson, AVP & HR Generalist

Contract Purchasing and Equipment Leasing
Chris Ewer, SVP & Indirect Lending
Jeff Miller, VP & Dealer Finance Manager
Jessica Steinburg, Financial Services Supervisor
Elliott McLeod, Loan Officer
Thomas Christopherson, AVP & Loan Officer

Electronic Banking and Card Services
Sharon Low, VP & Electronic Banking Manager
Carrie Gerdes, AVP & Treasury Management Officer

Municipal Banking
Thomas Brown, VP & Municipal Finance Manager

Information Technology
Terri Howard, AVP & Information Systems Operations Officer

Cashmere Valley Mortgage
Shirley Reyes, SVP & Mortgage Servicing Manager
Kyle Lewis, SVP & Mortgage Production Manager
Mireya Sanchez, Mortgage Operations Officer

Mitchell Reed & Schmitten Insurance
Brent Schmitten, President & Chief Operations Officer

Cashmere Valley Wealth Management
Timothy Meyers, Division Director

Customer Support Center
Sheryl Rivera, AVP & Customer Support Center Supervisor

Cashmere Branch
Josh Price, AVP & Manager
Jana Flores, Retail Operations Officer

Maple Street, Wenatchee Branch
Steve Lee, SVP & Regional Manager
Mike Kintner, VP & Commercial Lender
Kelly Walker, Retail Operations Officer

Leavenworth Branch
Darrin Rylaarsdam, SVP & Regional Manager
Shawna Alexander, VP & Retail Operations Officer
Gary Waunch, AVP & Loan Officer

East Wenatchee Branch
Alex Cruz, VP & Manager
Edith Amante, Retail Operations Officer

Chelan Street, Wenatchee Branch
Tina Hampton, Retail Operations Officer

Easy Street, Wenatchee Branch
Claudia De Robles, VP & Manager
Elizabeth Mejia, Retail Operations Officer

Ellensburg Branch
Pam Wilson, VP & Manager
Miriam Nation, Retail Operations Officer

Cle Elum Branch
Kimberly Bonjorni, VP & Manager
Caren Reed, Retail Operations Officer

Lake Chelan Branch
Russ Jones, VP & Manager
Griselda Hernandez, Retail Operations Officer

Summitview Avenue, Yakima Branch
Maria Fabara, Retail Operations Officer

Yakima Avenue, Yakima Branch
Taylor Stormo, SVP & Regional Manager
Brittanie Vaughn, Retail Operations Officer
Darren Reid, AVP & Loan Officer

Directory

Website Address
www.cashmerevalleybank.com

Administrative Offices
117 Aplets Way, Cashmere
509-782-2624

Cashmere Branch
117 Aplets Way, Cashmere
509-782-1501

Maple Street, Wenatchee Branch
1100 Maple Street, Wenatchee
509-662-1644

Leavenworth Branch
980 Highway 2, Leavenworth
509-548-5231

East Wenatchee Branch
199 Valley Mall Parkway, East Wenatchee
509-884-0622

Chelan Street, Wenatchee Branch
124 South Chelan Avenue, Wenatchee
509-662-6633

Easy Street, Wenatchee Branch
127 Easy Street, Wenatchee
509-662-5071

Ellensburg Branch
101 West University Way, Ellensburg
509-925-3000

Cle Elum Branch
803 West 1st Street, Cle Elum
509-674-2033

Lake Chelan Branch
329 East Woodin Avenue, Chelan
509-682-7162

Summitview Avenue, Yakima Branch
5800 Summitview Avenue, Yakima
509-457-7895

Yakima Avenue, Yakima Branch
127 West Yakima Avenue, Yakima
509-902-1352

Cashmere Valley Wealth Management
124 East Penny Road, Suite 102, Wenatchee
509-664-7168

Cashmere Valley Mortgage
127 Easy Street, Wenatchee
509-662-7722

Electronic Banking
124 East Penny Road, Suite 103, Wenatchee
509-664-5454

Valley Contract Servicing
124 East Penny Road, Suite 205, Wenatchee
509-664-5452

Card Services
124 East Penny Road, Suite 106, Wenatchee
Credit Cards 509-664-5455
ATM/Debit Cards 509-664-5453

Dealer Financing
124 East Penny Road, Suite 201, Wenatchee
509-664-3820

Equipment Finance Solutions
124 East Penny Road, Suite 202, Wenatchee
509-665-1088

Customer Support Center
124 East Penny Road, Wenatchee
509-665-1070

Municipal Banking
1400 112th Avenue SE, Suite 100, Bellevue
425-688-3935

Mitchell, Reed & Schmitten Insurance:

Wenatchee Office
124 East Penny Road Suite 101, Wenatchee
509-665-0500

Gellatly Insurance Services
22 North Chelan Avenue, Wenatchee
509-662-2151

Cashmere Office
117 Aplets Way, Cashmere
509-782-2751

Ellensburg Office
101 West University Way, Ellensburg
509-962-0902

Yakima Office
5800 Summitview Avenue, Yakima
509-454-5156

Elliott Insurance Service
127 West Yakima Avenue, Suite 201, Yakima
509-248-7711

Leavenworth Office
980 Highway 2, Leavenworth
509-548-6050

Cle Elum Office
803 West 1st Street, Cle Elum
509-674-4433

	Year Ended December 31,				
Performance Results	**2019**	**2018**	**2017**	**2016**	**2015**
Return on average equity	11.55%	12.35%	10.56%	10.70%	11.24%
Return on average assets	1.49%	1.45%	1.23%	1.24%	1.25%
Equity to assets	12.44%	12.33%	11.90%	11.41%	11.24%
Earnings per share - Basic	$5.70	$5.29	$4.49	$4.29	$4.12
Dividends per share	$1.30	$2.70	$1.08	$0.98	$0.90
Book value per share	$51.78	$45.54	$43.90	$40.50	$38.08
Market value per share	$63.00	$54.01	$58.00	$47.25	$38.42
Average earning assets to average total assets	95.56%	95.72%	95.97%	96.85%	97.63%
Allowance for credit losses to total loans at December 31	1.22%	1.16%	1.19%	1.28%	1.49%
Efficiency ratio	55.02%	53.45%	51.35%	50.75%	50.23%
Yield and Cost of Funds					
Tax equivalent yield on investments	2.94%	2.98%	2.91%	2.65%	2.58%
Tax equivalent yield on loans	4.25%	4.03%	4.05%	4.09%	4.23%
Cost of funds	0.54%	0.39%	0.35%	0.36%	0.39%
Tax equivalent net interest margin	3.27%	3.46%	3.27%	3.25%	3.28%
Selected Items *(in thousands)*					
Total cash and cash equivalents	$141,393	$55,231	$56,686	$125,444	$81,315
Total investments	$544,150	$442,009	$518,456	$417,677	$409,762
Total loans	$918,541	$976,619	$894,250	$872,054	$855,351
Total assets	$1,651,499	$1,520,773	$1,516,014	$1,454,239	$1,381,663
Total deposits	$1,423,347	$1,314,877	$1,314,302	$1,269,026	$1,203,816
Total equity	$205,404	$187,503	$180,458	$165,879	$155,343

To the shareholders and friends of Cashmere Valley Bank

We completed our 87th year in business during 2019 and it was a very successful year. We are happy to report we grew deposits just over 8%. This comes after a year of disappointing growth in 2018. Net income was up 7.38%. Earnings per share was up slightly more due to a successful tender offer we executed in 2019 to repurchase shares of our stock. We successfully repurchased 159,805 shares. We hoped for more but the number of shares we repurchased made it worth the effort. Furthermore, it creates a liquidity event for those shareholders in need of selling where they can get a fair price for larger blocks of shares that might otherwise take time to sell. Total shareholder return for 2019 was just over 19%.

We did see our net interest margin settle back to historical levels as the competition for deposits intensified. I think we will see this situation become more challenging going forward as asset yields continue to fall.

Non-interest expense also increased which caused a slight deterioration of our efficiency ratio which has always been a primary driver of our profitability over the years. Wage pressures (minimum wage), compliance costs, and cyber and fraud cost are outpacing non-interest income sources which are up very nicely with excellent performance in our Mortgage operation, wealth management and insurance services. We are certainly grateful for all three business lines and the quality of leadership we have in those areas.

The declining assets yields towards the end of 2019 have had a negative effect on our loan portfolio. Competition for loans is fierce and everybody is reaching for any yield they can get. This led to a decline in the loan portfolio of nearly 6%. We have a great pipeline of new opportunities, but interest income will be a challenge for 2020. I am happy to report that asset quality continues to be very good.

Equity continues to be *very* strong at 12.44%. This is the ultimate buffer against any negative economic events. Our overall risk profile is low relative to our peers, so we actually continue to have too much equity. We put that in the category of "a good problem to have vs the alternative."

Our Yakima operations are showing some growth but the process is slow. We continue to own a piece of property in a key location in Union Gap by Costco which would complete the buildout in Yakima County. Plans for building are still a ways out.

We look forward to talking to you at the annual meeting on April 21, 2020 at 7:30 PM. The meeting will be held only via telephone due to social distancing constraints. To enter the meeting please dial, 1-855-749-4750 and the meeting passcode will be 359 587 87.

I thank all of you for your tremendous support. It's great to be Cashmere Valley Bank, "*the little bank with the big circle of friends.*"

Sincerely,

Greg Oakes,
President and CEO

Tel: 509-747-8095
Fax: 509-747-0415
www.bdo.com

601 W. Riverside Ave., Suite 900
Spokane, WA 99201-0611

Independent Auditor's Report

Management & Audit Committee
Cashmere Valley Bank
Cashmere, Washington

We have audited the accompanying consolidated financial statements of Cashmere Valley Bank and Subsidiary, which comprise the consolidated balance sheets as of December 31, 2019 and 2018, and the related consolidated statements of income and comprehensive income, shareholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Cashmere Valley Bank and Subsidiary as of December 31, 2019 and 2018, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

BDO USA, LLP

Spokane, Washington
March 17, 2020

Cashmere Valley Bank and Subsidiary
Consolidated Balance Sheets

(Dollars in Thousands, Except Share Amounts)

	December 31, 2019	December 31, 2018
Assets		
Cash and cash equivalents:		
Cash and due from banks	$29,644	$21,376
Interest-bearing deposits at other financial institutions	107,456	21,419
Federal funds sold	4,293	12,436
Total cash and cash equivalents	141,393	55,231
Securities available for sale at fair value	542,087	439,952
Federal Home Loan Bank (FHLB) stock, at cost	1,825	1,819
Pacific Coast Banker's Bancshares (PCBB) stock, at cost	238	238
Loans held for sale	1,804	696
Loans and leases	918,541	976,619
Allowance for credit losses	(11,188)	(11,299)
Net loans and leases	907,353	965,320
Premises and equipment, net	16,772	17,993
Accrued interest receivable	5,625	5,396
Bank Owned Life Insurance (BOLI)	15,447	15,010
Goodwill	7,162	7,162
Intangibles, net	1,907	2,046
Mortgage servicing rights	2,147	1,657
Other assets	7,739	8,253
Total assets	**$1,651,499**	**$1,520,773**
Liabilities		
Deposits:		
Noninterest-bearing demand	$274,171	$243,853
Savings and interest-bearing demand	889,417	849,378
Time	259,759	221,646
Total deposits	1,423,347	1,314,877
Accrued interest payable	765	509
Short-term borrowings	10,154	9,830
Other liabilities	11,829	8,054
Total liabilities	**1,446,095**	**1,333,270**
Commitments and contingencies (Note 13)		
Shareholders' Equity		
Common stock (no par value); authorized 10,000,000 shares; Issued and outstanding: 2019 – 3,966,748 ; 2018 – 4,117,745	--	--
Treasury stock	(9,908)	--
Additional paid-in capital	3,405	2,921
Retained earnings	205,473	187,434
Other comprehensive income/(loss)	6,434	(2,852)
Total shareholders' equity	**205,404**	**187,503**
Total liabilities and shareholders' equity	**$1,651,499**	**$1,520,773**

The accompanying notes are an integral part of these financial statements.

(Dollars in Thousands, Except Per Share Amounts)

	Year Ended December 31,	
	2019	**2018**
Interest Income:		
Loans and leases	$40,465	$36,883
Federal funds sold and deposits at other financial institutions	1,587	525
Securities available for sale:		
Taxable	7,872	6,416
Tax-exempt	4,913	6,384
Securities held to maturity – tax-exempt	--	11
Total interest income	54,837	50,219
Interest Expense:		
Deposits	7,334	4,894
Short-term borrowings	36	30
Long-term borrowings	--	216
Total interest expense	7,370	5,140
Net interest income	**47,467**	**45,079**
Provision for credit losses	709	1,026
Net interest income after provision for credit losses	**46,758**	**44,053**
Noninterest Income:		
Service charges on deposit accounts	1,914	1,886
Mortgage banking operations	3,390	2,230
Net gain/(loss) on sales of securities available for sale	772	(94)
Brokerage commissions	882	515
Insurance commissions and fees	4,579	4,110
Net interchange income	1,549	1,380
Increase in surrender value of BOLI	437	428
Other	1,258	1,482
Total noninterest income	14,781	11,937
Noninterest Expense:		
Salaries and employee benefits	18,745	17,023
Occupancy and equipment	3,139	3,005
Audits and examinations	378	408
State and local business and occupation taxes	783	651
FDIC insurance & WA state assessments	293	481
Legal and professional fees	615	368
Check losses and charge-offs	702	116
Low income housing fund losses	694	476
Data processing	4,718	4,208
Product delivery	1,008	1,430
Other	3,174	3,337
Total noninterest expense	34,249	31,503
Income before income taxes	**27,290**	**24,487**
Income Taxes	3,894	2,699
Net income	**$23,396**	**$21,788**
Change in the fair value of securities available for sale, net of tax	9,286	(5,329)
Comprehensive income, net of tax	**$32,682**	**$16,459**
Earnings per common share – Basic	$5.70	$5.29
Earnings per common share – Diluted	$5.69	$5.27

The accompanying notes are an integral part of these financial statements.

Cashmere Valley Bank and Subsidiary
Consolidated Statements of Shareholders' Equity

(Dollars in Thousands, Except Share Information)

	Shares of Common Stock	Treasury Stock	Additional Paid-In Capital	Retained Earnings	Other Comprehensive Income (Loss)	Total Equity
Balance as of December 31, 2017	**4,110,845**	**$--**	**$2,507**	**$175,474**	**$2,477**	**$180,458**
Net income	--	--	--	21,788	--	21,788
Other comprehensive income (loss), net of tax	--	--	--	--	(5,329)	(5,329)
Adoption of ASU 2016-16	--	--	--	1,283	--	1,283
Cash dividends paid	--	--	--	(11,111)	--	(11,111)
Stock based compensation expense	--	--	255	--	--	255
Exercise of common stock options	5,830	--	159	--	--	159
Restricted stock grants	1,150	--	--	--	--	--
Restricted stock forfeitures	(80)	--	--	--	--	--
Balance as of December 31, 2018	**4,117,745**	**--**	**2,921**	**187,434**	**(2,852)**	**187,503**
Net income	--	--	--	23,396	--	23,396
Other comprehensive income (loss), net of tax	--	--	--	--	9,286	9,286
Adoption of ASU 2016-16	--	--	--	--	--	--
Cash dividends paid	--	--	--	(5,357)	--	(5,357)
Stock based compensation expense	--	--	174	--	--	174
Exercise of common stock options	8,658	--	310	--	--	310
Restricted stock grants	200	--	--	--	--	--
Restricted stock forfeitures	(50)	--	--	--	--	--
Shares repurchased	(159,805)	(9,908)	--	--	--	(9,908)
Balance as of December 31, 2019	**3,966,748**	**$(9,908)**	**$3,405**	**$205,473**	**$6,434**	**$205,404**

The accompanying notes are an integral part of these financial statements.

(Dollars in Thousands)

	Year Ended December 31,	
	2019	**2018**
Cash Flows from Operating Activities		
Net income	$23,396	$21,788
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,830	2,957
Provision for credit losses	709	1,026
Investment amortization – net	4,588	5,999
Stock based compensation	174	255
Net gain on sale of securities and loans	(2,956)	(939)
Increase in surrender value of BOLI	(437)	(428)
Originations of loans held for sale	(83,816)	(52,678)
Proceeds from sales of loans held for sale	84,789	54,470
Net change in:		
Accrued interest receivable	(229)	182
Accrued interest payable	256	55
Deferred income tax	283	177
Federal income tax payable	122	(49)
Deferred compensation	164	143
Increase in deferred interchange revenue contract	44	--
Increase in deferred revenue for Wealth Management	(123)	554
Other – net	819	(71)
Net cash provided by operating activities	**30,613**	**33,441**
Cash Flows from Investing Activities		
Activity in securities available for sale:		
Sales proceeds	72,626	115,602
Maturities, prepayments, and calls	41,145	41,075
Purchases	(207,968)	(94,642)
Activity in securities held to maturity:		
Sales proceeds	--	484
Maturities, prepayments, and calls	--	983
Proceeds from redemption of FHLB stock	(6)	85
Loans and leases originated less (greater) than principal collected	57,308	(82,891)
Investment in low income housing fund	(66)	(20)
Additions to premises and equipment	(1,329)	(3,469)
Net cash used by investing activities	**(38,290)**	**(22,793)**
Cash Flows from Financing Activities		
Net increase in deposits	108,470	575
Net increase in short-term borrowings	324	393
Repayments of long-term borrowings	--	(2,119)
Cash dividends paid	(5,357)	(11,111)
Exercise of stock options	310	159
Repurchase of common stock	(9,908)	--
Net cash (used in) provided by financing activities	**93,839**	**(12,103)**
Net change in cash and due from banks	**86,162**	**(1,455)**
Cash and due from banks at beginning of year	55,231	56,686
Cash and due from banks at end of year	**$141,393**	**$55,231**

The accompanying notes are an integral part of these financial statements.

Note 1 – Summary of Significant Accounting Policies

Cashmere Valley Bank (the Company) is a Washington State chartered bank established in 1932 and operates 11 branches in North Central Washington. The Company's lending and other banking activities are carried out in and around Chelan, Douglas, Kittitas, and Yakima counties and to a lesser degree, other areas of Western Washington. The Company provides loan and deposit services to customers, who are predominately small and middle-market businesses and retail customers. The consolidated financial statements include the accounts of Cashmere Valley Bank and the Bank's wholly owned subsidiary, Mitchell, Reed and Schmitten, Inc. (MRS), an insurance agency. Intercompany transactions and balances have been eliminated. MRS is based in Wenatchee, Washington and brokers personal and commercial lines of insurance, including property, casualty, life and health insurance.

Consolidated Financial Statement Presentation

The consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) and practices within the financial services industry. GAAP defines a public company as one whose securities trade in a public market, including in over-the-counter markets. As the Company's stock trades in certain over-the-counter markets, certain disclosures are required to meet public company requirements. The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, as of the date of the consolidated balance sheet, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ significantly from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate primarily to the determination of the allowance for credit losses and valuations of securities, goodwill, and mortgage servicing rights. Certain prior year amounts have been reclassified to conform to 2019 presentation, with no change to total shareholders' equity or net income reported.

Cash and Cash Equivalents

The Company considers federal funds sold, cash and amounts due from banks, and interest-bearing deposits at other financial institutions to be cash and cash equivalents, and are reported as such on the consolidated balance sheets and statement of cash flows. Cash flows from loans, deposits, and short-term borrowings are reported net. Additional cash flow information was as follows (dollars in thousands):

	Year Ended December 31,	
	2019	**2018**
Cash paid for interest	$7,114	$5,085
Cash paid for income taxes	$3,487	$2,617
Significant non-cash transactions:		
Fair value adjustment of securities available for sale, net of tax	$9,286	$(5,329)

Stock Based Compensation

The Company has stock based compensation plans which are more fully discussed in Note 15. Under the plans, certain key employees have been awarded restricted stock grants and options to purchase common stock. Under the accounting guidance for stock compensation, compensation expense recognized includes the cost of stock based awards associated with restricted stock grants and incentive stock options which are recognized as compensation expense over the vesting period on a straight-line basis. The Company recognized stock based compensation expense totaling $174,000 and $255,000 in 2019 and 2018, respectively.

Securities Available for Sale

Securities available for sale consist of debt securities that the Company intends to hold for an indefinite period, but not necessarily to maturity. Such securities may be sold to implement the Company's asset/liability management strategies, interest rate risk strategies, and in response to changes in interest rates and similar factors. Securities available for sale are reported at fair value. Unrealized gains and losses, net of the related deferred tax effect, are reported as a net amount in a separate component of shareholders' equity entitled "other comprehensive income." Realized gains and losses on securities available for sale, determined using the specific identification method, are included in earnings. Generally, amortization of premiums and accretion of discounts are recognized in interest income over the contractual life of the security using the effective interest method. As principal repayments are received on securities, a proportionate amount of the related premium or discount is recognized so that the effective interest rate on the remaining portion of the security continues unchanged.

The Company evaluates the portfolio for impairment each quarter. In estimating other-than-temporary losses, the Company considers the following factors: (1) the length of time and the extent to which the market value has been less than cost; (2) the financial condition and near-term prospect of the issuer; (3) the intent and ability of the Company to retain its investment in a security for a period of time sufficient to allow for any anticipated recovery in market value; (4) implicit or implied guarantees of the U.S. government; (5) whether it is more likely than not that the Company will be required to sell the securities before recovery; and (6) general market conditions which reflect prospects for the economy as a whole, including interest rates and sector credit spreads. If a loss is deemed to be other-than-temporary, the Company then calculates a credit loss charge against earnings by subtracting the estimated present value of estimated future cash flows on the security from its amortized cost. The other-than-temporary impairment less the credit loss charge against earnings is a component of other comprehensive income.

Securities Held to Maturity

Debt securities which the Company has the positive intent and ability to hold to maturity are reported at cost, adjusted for amortization of premiums and accretion of discounts, which are recognized in interest income over the period to maturity. During the second quarter of 2018, the Company tainted its securities held to maturity portfolio as a result of a change in the intent to hold the securities until maturity to provide opportunities to maximize its asset utilization. As a result, approximately $37,000 in securities were moved to available-for-sale in 2018 and resulted in a decrease to accumulated other comprehensive income of $32,000 as this was recognized in the Company's earnings in 2018.

Federal Home Loan Bank Stock

The Company, as a member of the Federal Home Loan Bank (FHLB) system, is required to maintain an investment in capital stock of the FHLB based on the sum of the two following calculations (calculated at least annually as of the preceding December 31):

- The Membership Stock Purchase Requirement: based on a percentage of assets as shown in table below:

	Current Requirement	Minimum Investment	Maximum Investment
Percent of Total Assets	0.12%	0.05%	0.25%
Membership Stock Cap	$10 million	$1 million	$30 million
Membership Stock Floor	$10,000	$10,000	$30,000

- The Activity Based Stock Purchase Requirement: based on a percentage of the book value held and records of the transactions shown in the table below:

Transaction	Current Requirement	Minimum Requirement	Maximum Requirement
Outstanding Advances	4.00%	2.00%	5.00%
Outstanding Acquired Member Assets	4.00%	0.00%	5.00%
Standby Letters of Credit	0.00%	0.00%	0.18%
Advance Commitments	0.00%	0.00%	0.35%
Acquired Member Asset Commitments	0.00%	0.00%	0.60%

The recorded amount of FHLB stock equals its fair value because the shares can only be redeemed by the FHLB at the $100 per share par value.

The Company views its investment in the FHLB stock as a long-term investment. Accordingly, when evaluating for impairment, the value is determined based on the ultimate recovery of the par value rather than recognizing temporary declines in value. The determination of whether a decline affects the ultimate recovery is influenced by criteria such as: (1) the significance of the decline in net assets of the FHLB as compared to the capital stock amount and length of time a decline has persisted; (2) impact of legislative and regulatory changes on the FHLB; and (3) the liquidity position of the FHLB. Management has determined there is no impairment on its FHLB stock as of December 31, 2019 and 2018.

Loans Held for Sale

Loans originated for sale in the secondary market, which is our principal market, or as whole loan sales are classified as loans held for sale. Management has elected the lower of cost or market option for all single family loans held for sale (originated with the intent to be held for sale) and records these loans at the lower of cost or market. The fair value of loans held for sale is generally based on observable market prices from other loans in the secondary market that have similar collateral, credit, and interest rate characteristics. If quoted market prices are not readily available, the Company may consider other observable market data such as dealer quotes for similar loans or forward sale commitments. In certain cases, the fair value may be based on a discounted cash flow model. Gains and losses on loans held for sale are recognized in net gain on mortgage loan origination and sale activities within noninterest income. Direct loan origination costs and fees for single family loans originated as held for sale are recognized in earnings.

Loans Held for Investment

Loans held for investment are reported at the principal amount outstanding, net of cumulative charge-offs, interest applied to principal (for loans accounted for using the cost recovery method), unamortized net deferred loan origination fees and costs, and unamortized premiums or discounts on purchased loans. Deferred fees and costs and premiums and discounts are recognized over the contractual terms of the underlying loans using the constant effective yield (the interest method). Interest on loans is accrued and recognized as interest income at the contractual rate of interest. A determination is made as of the loan commitment date as to whether a loan will be held for sale or held for investment. This determination is based primarily on the type of loan or loan program and its related profitability characteristics.

When a loan is designated as held for investment, the intent is to hold these loans until maturity or pay-off. If subsequent changes occur, the Company may change its intent to hold these loans. Once a determination has been made to sell such loans, they are immediately transferred to loans held for sale and carried at the lower of cost or fair value.

Direct financing leases are carried at the aggregate of lease payments plus estimated residual value of the leased property less unearned income. Interest income from direct financing leases is recognized over the term of the lease to achieve a constant periodic rate of return on the outstanding investment.

From time to time, the Company will originate loans to facilitate the sale of other real estate owned without a sufficient down payment from the borrower. Such loans are accounted for using the installment method and any gain on sale is deferred.

Nonaccrual Loans

Loans are placed on nonaccrual status when the full and timely collection of principal and interest is doubtful, generally when the loan becomes 90 days or more past due for principal or interest payment, or if part of the principal balance has been charged off.

All payments received on nonaccrual loans are accounted for using the cost recovery method. Under the cost recovery method, all cash collected is applied to first reduce the principal balance. A loan may be returned to accrual status if all delinquent principal and interest payments are brought current and the collectability of the remaining principal and interest payments in accordance with the loan agreement is reasonably assured. Loans that are well-secured and in the process of collection are maintained on accrual status, even if they are 90 days or more past due.

Impaired Loans

A loan is considered impaired when it is probable that all contractual principal and interest payments due will not be collected in accordance with the terms of the loan agreement. Factors considered by management in determining whether a loan is impaired include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due.

Troubled Debt Restructurings

A loan is accounted for and reported as a troubled debt restructuring (TDR) when, for economic or legal reasons, we grant a concession to a borrower experiencing financial difficulty. A restructuring that results in only an insignificant delay in payment is not considered a concession. A delay may be considered insignificant if the payments subject to the delay are insignificant relative to the unpaid principal or collateral value and the contractual amount due, or the delay in timing of the restructured payment period is insignificant relative to the frequency of payments, the debt's original contractual maturity, or original expected duration.

TDR's are designated as impaired because interest and principal payments will not be received in accordance with original contract terms. TDR's that are performing and on accrual status as of the date of the modification remain on accrual status. TDR's that are nonperforming as of the date of modification generally remain as nonaccrual until the prospect of future payments in accordance with the modified loan agreement is reasonably assured, generally demonstrated when the borrower maintains compliance with the restructured terms for a predetermined period, normally at least six months. TDR's with temporary below-market concessions remain designated as a TDR and impaired regardless of the accrual or performance status until the loan is paid off. However, if the TDR loan has been modified in a subsequent restructure with market terms and the borrower is not currently experiencing financial difficulty, then the loan may have its TDR designation removed.

Allowance for Credit Losses

The allowance for credit losses is maintained at a level sufficient to provide for probable credit losses based on evaluating known and inherent risks in the loan and lease portfolio. The allowance is provided based upon management's continuing analysis of the pertinent factors underlying the quality of the loan and lease portfolio. These factors include changes in the size and composition of the loan and lease portfolio, delinquency levels, actual loan loss experience, current economic conditions, and detailed analysis of individual loans for which full collectability may not be assured. The detailed analysis includes techniques to estimate the fair value of loan collateral and the existence of potential alternative sources of repayment. The allowance consists of specific, general, and unallocated components. For such loans that are classified as impaired, a specific allowance is established when the discounted cash flows, collateral value, or observable market price of the impaired loan is lower than the carrying value of that loan. The general component covers non-impaired loans and is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover the risk of loss due to general economic uncertainties that could affect the loan portfolio and management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio. The appropriateness of the allowance for credit losses is estimated based upon these factors and trends identified by management at the time consolidated financial statements are prepared.

When available information confirms that specific loans or portions thereof are uncollectible, identified amounts are charged against the allowance for credit losses. The existence of some or all of the following criteria will generally confirm that a loss has been incurred: the loan is significantly delinquent and the borrower has not demonstrated the ability or intent to bring the loan current; the Company has no recourse to the borrower, or if it does, the borrower has insufficient assets to pay the debt; the estimated fair value of the loan collateral is significantly below the current loan balance, and there is little or no near-term prospect for improvement.

A provision for credit losses is charged against income and added to the allowance for credit losses based on regular assessments of the loan and lease portfolio. The allowance for credit losses is allocated to certain loan and lease categories based on the relative risk characteristics, asset classifications and actual loss experience of the loan and lease portfolio. While management has allocated the allowance for credit losses to various loan and lease portfolio segments, the allowance is general in nature and is available for the loan and lease portfolio in its entirety.

The ultimate recovery of all loans and leases is susceptible to future market factors beyond the Company's control. These factors may result in losses or recoveries differing significantly from those provided in the consolidated financial statements.

In addition, regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for credit losses and may require the Company to make additions to the allowance based on their judgment about information available to them at the time of their examinations.

Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation, which is computed on the straight-line method over the estimated useful lives of the assets, which range from 35 to 40 years for buildings and 3 to 15 years for furniture, fixtures, and equipment. These assets are reviewed for impairment under FASB ASC 360, *"Property, Plant, and Equipment"* when events indicate that the carrying amount may not be recoverable. Gains or losses on dispositions are reflected in earnings.

Foreclosed Real Estate

Real estate properties acquired through, or in lieu of, foreclosure are to be sold and are initially recorded at the fair value of the properties, less estimated costs of disposal, which becomes the new cost basis. Any write-down to fair value at the time of transfer to foreclosed real estate is charged to the allowance for credit losses. Properties are evaluated regularly to ensure that the recorded amounts are supported by their current fair values. Any subsequent reductions in carrying values and revenue and expense from the operations of properties are recognized in the consolidated statement of income.

Mortgage Servicing Rights

Mortgage servicing rights (MSR's) are recognized as separate assets when rights are acquired through purchase or through sale of loans. Generally, purchased servicing rights are capitalized at the cost to acquire the rights. For sales of mortgage loans, a portion of the cost of originating the loan is allocated to the servicing right based on relative fair value. Capitalized servicing rights are amortized into noninterest income in proportion to, and over the period of, the estimated future net servicing income of the underlying financial assets.

MSR's are evaluated for impairment based upon the fair value of the rights as compared to amortized cost. Subsequent fair value measurements of single family MSR's, which are not traded in an active market with readily observable market prices, are determined by considering the present value of estimated future net servicing cash flows. Changes in the fair value of single family MSR's result from changes in (1) model inputs and assumptions and (2) modeled amortization, representing the collection and realization of expected cash flows and curtailments over time. The significant model inputs used to measure the fair value of single family MSR's include assumptions regarding market interest rates, projected prepayment speeds, discount rates, estimated costs of servicing, and other income and additional expenses associated with the collection of delinquent loans. Impairment is recognized through a valuation allowance to the extent that fair value is less than the recorded value. If the Company later determines that all or a portion of the impairment no longer exists, a reduction of the allowance will be recorded as an increase to income.

Servicing fee income is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal or a fixed amount per loan and are recorded as income when earned. The amortization of MSR's is netted against loan servicing fee income.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when: (1) the assets have been isolated from the Company; (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets; and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Income Taxes

Deferred tax assets and liabilities result from differences between the consolidated financial statement carrying amounts and the tax basis of assets and liabilities, and are reflected at currently enacted income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. The deferred tax provision represents the difference between the net deferred tax asset or liability at the beginning and end of the year. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. The determination of the realization of the deferred tax assets is highly subjective and dependent upon judgment concerning management's evaluation of both positive and negative evidence. The calculation of the Company's tax provision for federal income taxes is complex and requires the use of estimates and significant judgments in arriving at the amount of tax benefits to be recognized in the financial statements for a given tax position. It is possible that the tax benefits realized upon the ultimate resolution of a tax position may result in tax benefits that are significantly different from those estimated. The Company's policy is to classify interest and penalties associated with income taxes with other expenses.

Bank Owned Life Insurance (BOLI)

Bank owned life insurance policies are recorded at their cash surrender value or the amount that can be realized upon surrender of the policy. Income from BOLI is recognized when it is earned.

Goodwill

Goodwill represents costs in excess of net assets acquired and is evaluated at least annually for impairment, in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 350, "*Intangibles – Goodwill and Other*." The Company tested goodwill for impairment as of December 31, 2019 using the Step 0 method to evaluate impairment and concluded that the fair value of the goodwill is greater than the carrying value, noting no impairment of recorded goodwill. No events have occurred since December 31, 2019 that would require re-evaluation.

Intangible Assets

Intangible assets include non-competition and licensing agreements, and customer contracts and lists. The non-competition and licensing agreements are amortized by the straight-line method over four to five years. The customer contracts and lists are amortized on either a straight-line method or performance basis over a period up to fifteen years. In 2019 and 2018, no circumstances existed that would indicate these assets were potentially impaired. If such circumstances had existed, the assets would have been tested for impairment in accordance with FASB ASC 350, "*Intangibles – Goodwill and Other*."

Insurance Revenue

Insurance revenue consists of commissions and fees from the sales of insurance policies and related insurance services. Insurance commission income is recognized as of the effective date of the insurance policy, net of adjustments. Such adjustments are recorded when the amount can be reasonably estimated, which is generally in the period in which they occur. Commission revenues related to installment billings are recognized on the latter of effective or invoiced date. Contingent commissions are estimated and accrued relative to the recognition of corresponding commissions. Management determines a policy cancellation reserve based upon historical cancellation experience adjusted for any known circumstances. Subsequent commission adjustments were recognized upon receipt of notification from insurance companies concerning such adjustments.

Advertising

Advertising costs are generally charged to expense during the year in which they are incurred. Advertising expense was $278,000 and $225,000 for the years ended December 31, 2019 and 2018, respectively.

Derivative Financial Instruments

The Company enters into interest rate swaps to convert fixed rate long-term loans to floating rate loans. Management individually evaluates and converts fixed rate loans to floating rate loans depending on the size, maturity, and planned amortization of each loan. The interest rate swap instruments are recognized as derivatives on the balance sheet at their fair value. On the date the derivative contract is entered into, the Company designates the derivative as a hedge of fair value of a recognized asset or liability. Changes in the fair value of a derivative that is highly effective, and that is designated and qualifies as a fair value hedge, along with the loss or gain on the hedged asset or liability that is attributable to the hedged risk, are recorded in current period earnings.

The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedged transactions. This process includes linking all derivatives that are designated as fair value hedges to specific assets and liabilities on the balance sheet and statement of cash flows. The Company also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values of hedged items. When it is determined that a derivative is not highly effective as a hedge or that it has ceased to be a highly effective hedge, the Company discontinues hedge accounting prospectively, as discussed below. The Company discontinues hedge accounting prospectively when: (1) it is determined that the derivative is no longer effective in offsetting changes in the fair value of a hedged item; (2) the derivative expires or is sold, terminated, or exercised; or (3) management determines that designation of the derivative as a hedge instrument is no longer appropriate.

When hedge accounting is discontinued because it is determined that the derivative no longer qualifies as an effective fair value hedge, the derivative will continue to be carried on the balance sheet at its fair value with changes in its fair value recognized in current period earnings, and the hedged asset or liability will no longer be adjusted for changes in fair value.

Fair Value

The Company measures or monitors many of its assets and liabilities on a fair value basis. Fair value is used on a recurring basis for certain assets and liabilities in which fair value is the primary basis of accounting. Examples of these include derivative instruments and available for sale securities. Additionally, fair value is used on a non-recurring basis to evaluate assets or liabilities for impairment or for disclosure purposes. Examples of these non-recurring uses of fair value include certain loans held for sale accounted for on a lower of cost or market basis, impaired loans, foreclosed real estate, mortgage servicing rights, goodwill and long-lived assets.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the measurement date. Fair value estimates are based on quoted market prices, if available. If quoted market prices are not available, fair value estimates are based on quoted market prices of similar assets or liabilities or the present value of expected future cash flows and other valuation techniques. These valuations are significantly affected by discount rates, cash flow assumptions, risk and other assumptions used. Therefore, fair value estimates may not be substantiated by comparison to independent markets and are not intended to reflect the proceeds that may be realizable in an immediate settlement of the instruments.

Fair value is determined at one point in time and is not representative of future value. Fair value amounts also do not reflect the total value of a going concern organization. Management does not have the intention to dispose of a significant portion of its assets and liabilities and therefore, the unrealized gains or losses should not be interpreted as a forecast of future earnings and cash flows.

In support of these representations, FASB ASC 820, "*Fair Value Measurements and Disclosures*," establishes fair value hierarchy that prioritizes the information used to develop those assumptions. The fair value hierarchy is as follows:

> Level 1 inputs are observable inputs, based upon the quoted prices for identical instruments in active markets that are accessible as of the measurement date, and are to be used whenever available.
>
> Level 2 inputs are other types of observable inputs, such as quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are inactive; or other inputs that are observable or can be derived from or supported by observable market data. Level 2 inputs are to be used whenever Level 1 inputs are not available.
>
> Level 3 inputs are significantly unobservable and are supported by little or no market activity. These Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair values requires significant management judgment or estimation. Level 3 inputs are to only be used when Level 1 and Level 2 inputs are unavailable.

When determining the fair value measurements for assets and liabilities, the Company considers the principal or most advantageous market in which it would transact, and considers assumptions that market participants would use when pricing the asset or liability. When possible, the Company looks to active and observable markets to price identical assets or liabilities. When identical assets or liabilities are not traded in active markets, the Company looks to market observable data for similar assets and liabilities.

Recent Accounting Pronouncements

ASU 2019-12, "Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes." Issued in December 2019, ASU No. 2019-12 includes a number of provisions intended to simplify the accounting for income taxes. The update is effective for fiscal years after December 15, 2020. The Company is currently assessing the impact of this ASU on its accounting and disclosures.

ASU 2018-15, "Intangibles – Goodwill and Other – Internal Use Software." Issued in August 2018, ASU No. 2018-15 aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The amendments of ASU 2018-15 are effective for public entities for interim and annual periods beginning after December 15, 2019 and for other entities for periods beginning after December 15, 2020. Management early adopted ASU 2018-15 as of January 1, 2019 as early adoption is permitted and this ASU did not have an impact on the Company's financial statements.

ASU 2018-09, "Codification Improvements." Issued in July 2018, ASU No. 2018-09 makes changes to a variety of topics to clarify, correct errors in, or make minor improvements to the Accounting Standards Codification. The majority of the amendments in ASU 2018-09 will be effective in annual periods beginning after December 15, 2018. The adoption of this ASU did not have a material impact on the Company.

ASU 2018-07, "Compensation-Stock Compensation." Issued in June 2018, ASU 2018-07 expands the scope of ASC 718 to include share-based payment transactions for acquiring goods and services from nonemployees. The amendments also clarify that ASC 718 does not apply to share-based payments used to provide either financing to the issuer or awards granted in conjunction with selling goods or services to customers under a contract subject to ASC 606, Revenue from Contracts with Customers. The amendments of ASU 2018-07 are effective for public entities for interim and annual periods beginning after December 15, 2018 and for other entities for periods beginning after December 15, 2019. Management adopted ASU 2018-07 using the public company effective date as early adoption is permitted. The adoption of this ASU did not have a material impact on the Company.

ASU No. 2016-13, "Financial Instruments-Credit Losses." On June 16, 2017 the amendments in this ASU were issued to provide financial statement users with more decision-useful information about the current expected credit losses (CECL) on financial instruments that are not accounted for at fair value through net income, including loans held for investment, held-to-maturity debt securities, trade and other receivables, net investment in leases and other commitments to extend credit held by a reporting entity at each reporting date. The amendments in this ASU require a financial asset (or a group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of the financial asset(s) to present the net carrying value at the amount expected to be collected on the financial asset. The income statement will reflect the measurement of credit losses for newly recognized financial assets and for the expected increase or decrease of expected credit loss.

The ASU also requires credit losses relating to available-for-sale debt securities to be recorded through an allowance for credit losses rather than as a write-down. The initial allowance for the credit losses, for purchased available-for-sale securities, is added to the purchase price rather than reported as a credit loss expense. Subsequent changes in the allowance are recorded as credit loss expense. Interest income should be recognized based on the effective interest rate, excluding the discount attributed to the assessment of credit loss at acquisition.

The FASB issued ASU 2019-10 which provided certain clarifications to this update as well as extended the implementation date for non SEC Filer public business entities. The amendments are effective for annual reporting periods beginning after December 15, 2020. The Company is assessing the impact of this ASU on its accounting and disclosures.

ASU No. 2016-02, "Leases (Topic 842)." Issued February 16, 2016 the new leases standard applies a right-of-use (ROU) model that requires a lessee to record, for all leases with a lease term of more than 12 months, an asset representing its right to use the underlying asset and a liability to make lease payments. For leases with a term of 12 months or less, a practical expedient is available whereby a lessee may elect, by class of underlying asset, not to recognize an ROU asset or lease liability. At inception, lessees must classify all leases as either finance or operating based on five criteria. Balance sheet recognition of finance and operating leases is similar, but the pattern of expense recognition in the income statement, as well as the effect on the statement of cash flows, differs depending on the lease classification. The new leases standard requires a lessor to classify leases as either sales-type, direct financing or operating, similar to existing U.S. GAAP. Classification depends on the same five criteria used by lessees plus certain additional factors. The subsequent accounting treatment for all three lease types is substantially equivalent to existing U.S. GAAP for sales-type leases, direct financing leases, and operating leases. However, the new standard updates certain aspects of the lessor accounting model to align it with the new lessee accounting model, as well as with the new revenue standard under Topic 606. Lessees and lessors are required to provide certain qualitative and quantitative disclosures to enable users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. The new leases standard addresses other considerations including identification of a lease, separating lease and nonlease components of a contract, sale and leaseback transactions, modifications, combining contracts, reassessment of the lease term, and remeasurement of lease payments. It also contains comprehensive implementation guidance with practical examples. The FASB has issued ASU 2018-10 and 2018-11 which provide certain clarifications to these updates however did not change the adoption date for public business entities. The Company adopted the new leasing standard as of January 1, 2019. The impact on the financial statements of the Company is deemed to be immaterial.

Note 2 – Restricted Assets

Federal Reserve Board regulations require that the Company maintain certain minimum reserve balances on hand or on deposit with the Federal Reserve Bank, based on a percentage of deposits. The required minimum reserve balances at December 31, 2019 and 2018 were $2,657,000 and $2,272,000, respectively. Due to sufficient balances maintained on premises, no balances were required to be on deposit with the Federal Reserve Bank for the years ended December 31, 2019 and 2018.

Note 3 – Securities

Securities have been classified according to management's intent. The amortized cost of securities and their approximate fair value are as follows (dollars in thousands):

Securities Available for Sale	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2019				
Money market funds	$--	$--	$--	$--
U.S. Treasury securities	--	--	--	--
SBA loans backed by U.S. government agency	20,340	--	(110)	20,230
State and municipal securities	234,612	9,136	(1,627)	242,121
Collateralized mortgage obligations	205,918	1,903	(1,413)	206,408
Mortgage-backed securities	51,951	961	(73)	52,839
Student loans backed by U.S. government agency	21,121	--	(632)	20,489
Total	$533,942	$12,000	$(3,855)	$542,087
December 31, 2018				
Money market funds	$22	$--	$--	$22
U.S. Treasury securities	8,353	2	(7)	8,348
SBA loans backed by U.S. government agency	--	--	--	--
State and municipal securities	207,140	1,476	(1,975)	206,641
Collateralized mortgage obligations	155,126	450	(3,030)	152,546
Mortgage-backed securities	53,371	112	(515)	52,968
Student loans backed by U.S. government agency	19,550	1	(124)	19,427
Total	$443,562	$2,041	$(5,651)	$439,952

In determining that no securities were other-than-temporarily impaired, each security was individually evaluated for impairment by management. On a quarterly basis, the Company evaluates these securities for other-than-temporary impairment (OTTI). During 2019 and 2018 there was no OTTI recorded in earnings. The unrealized losses on securities are primarily due to elevated yield spreads at December 31, 2019 and 2018 as compared to yield relationships prevailing at the time specific securities were purchased.

At December 31, 2019, there were fifty-six securities in a continuous unrealized loss position more than twelve months. The following shows the unrealized gross losses and fair value of securities in the available for sale portfolio at December 31, 2019 and 2018, by length of time that individual securities in each category have been in a continuous loss position (dollars in thousands):

	Less Than 12 Months		More Than 12 Months		Total	
	Unrealized Gross Loss	**Fair Value**	**Unrealized Gross Loss**	**Fair Value**	**Unrealized Gross Loss**	**Fair Value**
December 31, 2019						
U.S. Treasury securities	$--	$--	$--	$--	$--	$--
SBA loans backed by U.S. government agency	(110)	20,230	--	--	(110)	20,230
State and municipal securities	(1,627)	68,809	--	--	(1,627)	68,809
Collateralized mortgage obligations	(646)	67,019	(767)	54,463	(1,413)	121,482
Mortgage-backed securities	(32)	7,544	(41)	5,866	(73)	13,410
Student loans backed by U.S. government agency	--	--	(632)	17,980	(632)	17,980
Total	$(2,415)	$163,602	$(1,440)	$78,309	$(3,855)	$241,911

	Less Than 12 Months		More Than 12 Months		Total	
	Unrealized Gross Loss	**Fair Value**	**Unrealized Gross Loss**	**Fair Value**	**Unrealized Gross Loss**	**Fair Value**
December 31, 2018						
U.S. Treasury securities	$(7)	$6,368	$--	$--	$(7)	$6,368
SBA loans backed by U.S. government agency	--	--	--	--	--	--
State and municipal securities	(682)	78,340	(1,293)	40,424	(1,975)	118,764
Collateralized mortgage obligations	(372)	37,946	(2,658)	91,737	(3,030)	129,683
Mortgage-backed securities	(108)	18,679	(407)	32,482	(515)	51,161
Student loans backed by U.S. government agency	(124)	18,344	--	--	(124)	18,344
Total	$(1,293)	$159,677	$(4,358)	$164,643	$(5,651)	$324,320

The contractual maturities of securities held to maturity and available for sale at December 31, 2019, are shown below (dollars in thousands):

	Held to Maturity		Available for Sale	
	Amortized Cost	**Fair Value**	**Amortized Cost**	**Fair Value**
Due in one year or less	$--	$--	$16,794	$16,865
Due from one year to five years	--	--	37,287	37,711
Due from five years to ten years	--	--	104,298	105,590
Due after ten years	--	--	375,563	381,921
Total	$--	$--	$533,942	$542,087

Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations, with or without call or prepayment penalties.

Securities carried at approximately $60.4 million and $62.0 million at December 31, 2019 and 2018, respectively, were pledged to secure public deposits, repurchase agreements, and other purposes required or permitted by law.

Sales of securities available for sale were as follows (dollars in thousands):

	2019	2018
Proceeds from sales	$72,626	$115,602
Gross realized gains included in earnings	932	697
Gross realized losses included in earnings	(160)	(791)

No held to maturity securities were sold in 2019. One held to maturity security was sold in 2018, as the intent is to hold all securities as available for sale. Proceeds from the sale were $484,000 and gross realized losses included in earnings at December 31, 2018 were $32,000.

Note 4 – Loans and Leases

Loans and leases at December 31 consist of the following (dollars in thousands):

	2019	2018
Commercial and agricultural	$62,206	$71,651
Real estate:		
Residential 1-4 family	152,301	152,219
Commercial	329,479	335,751
Construction	62,531	69,283
Farmland	10,682	11,245
Municipal	85,967	118,633
Consumer	18,151	20,965
Dealer contracts	189,612	188,334
Leases	2,526	3,365
Credit card	5,086	5,173
Total loans and leases	$918,541	$976,619

The following tables detail activity in the allowance for loan and lease losses (ALLL) by portfolio segment for the years ended December 31, 2019 and 2018 (dollars in thousands). Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories.

		Real Estate					
2019	**Commercial and Agricultural**	**Residential 1-4 Family**	**Commercial, Construction, and Farmland**	**Municipal**	**Consumer and Other**	**Unallocated**	**Total ALLL**
Beginning Balance	$1,077	$1,136	$5,788	$128	$3,170	$--	$11,299
Provision for loan and lease losses	235	(93)	(665)	(32)	499	765	709
Charge-offs	(553)	--	--	--	(946)	--	(1,499)
Recoveries	221	--	--	--	458	--	679
Net Charge-offs	(332)	--	--	--	(488)	--	(820)
Ending balance	$980	$1,043	$5,123	$96	$3,181	$765	$11,188
Period end amount allocated to:							
Loans and leases individually evaluated for impairment	$74	$187	$92	$--	$3	$--	$356
Loans and leases collectively evaluated for impairment	906	856	5,031	96	3,178	765	10,832
Ending balance	$980	$1,043	$5,123	$96	$3,181	$765	$11,188

2018	Commercial and Agricultural	Real Estate: Residential 1-4 Family	Real Estate: Commercial, Construction, and Farmland	Municipal	Consumer and Other	Unallocated	Total ALLL
Beginning Balance	$792	$1,095	$5,421	$120	$2,584	$627	$10,639
Provision for loan and lease losses	373	41	367	8	864	(627)	1,026
Charge-offs	(288)	(21)	--	--	(872)	--	(1,181)
Recoveries	200	21	--	--	594	--	815
Net Charge-offs	(88)	--	--	--	(278)	--	(366)
Ending balance	$1,077	$1,136	$5,788	$128	$3,170	$--	$11,299
Period end amount allocated to:							
Loans and leases individually evaluated for impairment	$13	$230	$51	$--	$5	$--	$299
Loans and leases collectively evaluated for impairment	1,064	906	5,737	128	3,165	--	11,000
Ending balance	$1,077	$1,136	$5,788	$128	$3,170	$--	$11,299

The reserve for unfunded commitments totaled $256,000 as of December 31, 2019 and 2018.

The Company's recorded investment in loans and leases as of December 31, 2019 and 2018 related to each balance in the allowance for loan and lease losses by portfolio segment and disaggregated on the basis of the Company's impairment methodology was as follows (dollars in thousands):

	Commercial and Agricultural	Real Estate: Residential 1-4 Family	Real Estate: Commercial, Construction, and Farmland	Municipal	Consumer and Other	Total Loans and Leases
2019						
Loans and leases individually evaluated for impairment	$1,647	$4,716	$6,625	$--	$139	$13,127
Loans and leases collectively evaluated for impairment	60,559	147,585	396,067	85,967	215,236	905,414
Ending balance	$62,206	$152,301	$402,692	$85,967	$215,375	$918,541
2018						
Loans and leases individually evaluated for impairment	$1,240	$4,987	$2,154	$--	$158	$8,539
Loans and leases collectively evaluated for impairment	70,411	147,232	414,125	118,633	217,679	968,080
Ending balance	$71,651	$152,219	$416,279	$118,633	$217,837	$976,619

A summary of loans and leases by age, segregated by class of loans and leases, as of December 31, 2019 and 2018 was as follows (dollars in thousands):

2019	Loans and Leases 30-89 Days Past Due	Loans and Leases 90 or More Days Past Due	Total Past Due Loans and Leases	Current Loans and Leases	Total Loans and Leases	Accruing Loans 90 or More Days Past Due
Commercial and agricultural	$344	$100	$444	$61,762	$62,206	$--
Residential 1-4 family real estate	1,370	36	1,406	150,895	152,301	--
Commercial, construction, and						--
farmland real estate	184	443	627	402,065	402,692	--
Municipal	75	--	75	85,892	85,967	--
Consumer and other	587	187	774	214,601	215,375	2
Total	$2,560	$766	$3,326	$915,215	$918,541	$2

2018						
Commercial and agricultural	$356	$--	$356	$71,295	$71,651	$--
Residential 1-4 family real estate	1,047	26	1,073	151,146	152,219	--
Commercial, construction, and farmland real estate	41	34	75	416,204	416,279	--
Municipal	--	--	--	118,633	118,633	--
Consumer and other	905	193	1,098	216,739	217,837	3
Total	$2,349	$253	$2,602	$974,017	$976,619	$3

The following table provides information with respect to nonaccrual loans as of the years ended December 31, 2019 and 2018 (dollars in thousands):

Nonaccrual Loans:

	2019	**2018**
Commercial and agricultural	$100	$--
Residential 1-4 family real estate	36	26
Commercial, construction, and farmland real estate	443	34
Municipal	--	--
Consumer and other	185	190
Total	$764	$250

The following table provides information with respect to impaired loans as of the years ended December 31, 2019 and 2018 (dollars in thousands):

2019	**Unpaid Contractual Principal Balance**	**Recorded Investment With No Allowance**	**Recorded Investment With Allowance**	**Total Recorded Investment**	**Related Allowance**	**Average Recorded Investment**
Commercial and agricultural	$1,647	$1,307	$340	$1,647	$36	$1,520
Residential 1-4 family real estate	4,716	3,064	1,652	4,716	187	4,889
Commercial, construction, and farmland real estate	6,625	5,690	935	6,625	38	5,564
Municipal	--	--	--	--	--	--
Consumer and other	139	--	139	139	3	146
Total	$13,127	$10,061	$3,066	$13,127	$264	$12,119
2018						
Commercial and agricultural	$1,240	$814	$426	$1,240	$13	$1,298
Residential 1-4 family real estate	4,987	3,069	1,918	4,987	230	5,344
Commercial, construction, and farmland real estate	2,154	1,188	966	2,154	51	2,354
Municipal	--	--	--	--	--	--
Consumer and other	158	3	155	158	5	162
Total	$8,539	$5,074	$3,465	$8,539	$299	$9,158

At December 31, 2019, there were no commitments to lend additional funds to borrowers whose loans have been impaired. Loans over 90 days past due still accruing interest totaled $2,000 at December 31, 2019 and $3,000 at December 31, 2018.

No interest income was recognized on a cash basis for impaired loans for the years ended December 31, 2019 and December 31, 2018. All impaired loans were paying according to terms and were accruing interest income in 2019.

The Company assigns risk rating classifications to its loans. These risk ratings are divided into the following groups:

Pass – asset is considered of sufficient quality to preclude a Special Mention or an adverse rating. Pass assets generally are well protected by the current net worth and paying capacity of the obligor, by the value of the asset, or the underlying collateral.

Special Mention – asset has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the Company's credit position at some future date. Special Mention assets are not adversely classified and do not expose an institution to sufficient risk to warrant adverse classification.

Substandard – asset is inadequately protected by the current net worth and paying capacity of the obligor or by the collateral pledged, if any. Assets so classified have well-defined weaknesses. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.

Doubtful – asset has the weaknesses of those classified Substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Credit quality indicators for the Company's loan portfolio as of December 31, 2019 and 2018 grouped according to internally assigned risk ratings and payment activity (dollars in thousands):

		Real Estate				
	Commercial and Agricultural	Residential 1-4 Family	Commercial, Construction, and Farmland	Municipal	Consumer and Other	Total Loans and Leases
2019						
Pass	$60,078	$146,879	$392,885	$85,967	$212,030	$897,839
Special Mention	463	3,052	2,713	--	2,804	9,032
Substandard	1,665	2,370	7,094	--	539	11,668
Doubtful	--	--	--	--	2	2
Total Loans and Leases	$62,206	$152,301	$402,692	$85,967	$215,375	$918,541
Restructured	$--	$--	$--	$--	$--	$--
Nonaccrual	100	36	443	--	185	764
Nonperforming	100	36	443	--	185	764
Performing	62,106	152,265	402,249	85,967	215,190	917,777
Total Loans and Leases	$62,206	$152,301	$402,692	$85,967	$215,375	$918,541

		Real Estate				
	Commercial and Agricultural	Residential 1-4 Family	Commercial, Construction, and Farmland	Municipal	Consumer and Other	Total Loans and Leases
2018						
Pass	$69,611	$144,830	$392,467	$118,633	$214,786	$940,327
Special Mention	708	3,966	19,611	--	2,535	26,820
Substandard	1,332	3,423	4,201	--	513	9,469
Doubtful	--	--	--	--	3	3
Total Loans and Leases	$71,651	$152,219	$416,279	$118,633	$217,837	$976,619
Restructured	$--	$--	$--	$--	$--	$--
Nonaccrual	--	26	34	--	190	250
Nonperforming	--	26	34	--	190	250
Performing	71,651	152,193	416,245	118,633	217,647	976,369
Total Loans and Leases	$71,651	$152,219	$416,279	$118,633	$217,837	$976,619

Restructured loans are defined as the period end outstanding balance of loans that previously underwent a troubled debt restructuring that are not performing in accordance with restructured terms.

The following table presents by class troubled debt restructurings (TDR's) recorded during the years ended December 31, 2019 and 2018 (dollars in thousands, except number of contracts):

2019	**Number of Contracts**	**Pre-Modification Recorded Investment**	**Post-Modification Recorded Investment**
Commercial and agricultural	4	$658	$658
Residential 1-4 family real estate	1	195	195
Commercial, construction, and farmland real estate	3	4,640	4,640
Municipal	--	--	--
Consumer and other	--	--	--
Total*	8	$5,493	$5,493

*Amounts exclude specific loan loss reserves

2018	**Number of Contracts**	**Pre-Modification Recorded Investment**	**Post-Modification Recorded Investment**
Commercial and agricultural	4	$11	$11
Residential 1-4 family real estate	3	143	143
Commercial, construction, and farmland real estate	6	679	679
Municipal	--	--	--
Consumer and other	1	3	3
Total*	14	$836	$836

*Amounts exclude specific loan loss reserves

The majority of TDR's are determined to be impaired prior to being restructured. As such, they are individually evaluated for impairment, unless they are considered homogeneous loans in which case they are collectively evaluated for impairment.

As of December 31, 2019 the Company had $264,000 in specific reserves on TDR's which were restructured during the year ended December 31, 2019. The primary type of concession granted in all TDR's during the year ended December 31, 2019 was maturity extensions. There were no TDR's that were restructured and subsequently defaulted during the year ended December 31, 2019.

Note 5 - Premises and Equipment

Components of premises and equipment at December 31 are as follows (dollars in thousands):

	2019	**2018**
Land	$5,133	$5,133
Buildings and improvements	18,436	18,050
Furniture	5,397	5,347
Equipment	4,900	4,467
Assets in process	5	303
Total cost	33,871	33,300
Less accumulated depreciation	(17,099)	(15,307)
Total premises and equipment	$16,772	$17,993

As of December 31, 2019 and December 31, 2018 there were no commitments for capital expenditures.

Depreciation expense was $1,890,000 and $1,813,000 in 2019 and 2018, respectively.

Note 6 – Goodwill and Other Intangible Assets

The Company recorded approximately $300,000 of goodwill and $729,000 of amortizable intangible assets in connection with the Gellatly Agency, Inc. merger that occurred on April 1, 2017.

The Company recorded approximately $100,000 of goodwill and $2,095,000 of amortizable intangible assets in connection with the Elliott Insurance Service, Inc. merger that occurred on July 1, 2017.

There were no new additions to goodwill or intangible assets in 2019 or 2018.

The amortization schedule of intangible assets in connection with acquisitions for future years ending December 31 is as follows (dollars in thousands):

2020	$154
2021	154
2022	153
2023	152
2024	152
Thereafter	1,142
	$1,907

Note 7– Mortgage Servicing Rights

Mortgage servicing rights (MSR's) are evaluated periodically for possible impairment based on the difference between the carrying amount and current fair value of the MSR's by risk stratification. If a temporary impairment exists, a valuation allowance is established for any excess of amortized cost over the current fair value through a charge to income. A direct write-down is performed when the recoverability of a recorded valuation allowance is determined to be remote. Unlike a valuation allowance, a direct write-down permanently reduces the carrying value of the MSR and the valuation allowance, precluding subsequent reversals.

Mortgage loans serviced for others are not included on the accompanying consolidated balance sheets. The unpaid principal balances of mortgage loans serviced for others were $405,107,000 and $389,559,000 at December 31, 2019 and 2018, respectively. Custodial escrow balances maintained in connection with the foregoing loan servicing were approximately $2,450,000 and $2,271,000 at December 31, 2019 and 2018, respectively. The weighted average amortization period of the Company's servicing rights was 5.9 years and 6.9 years in 2019 and 2018.

The following summarizes the activity in mortgage servicing rights for the years ended December 31 (dollars in thousands):

	2019	**2018**
Balance as of beginning of year	$1,657	$1,696
Originations	797	215
Amortization	(307)	(254)
Adjustment valuation	--	--
Balance as of end of year	$2,147	$1,657

The estimated fair value of the Company's MSR portfolio was $3,715,000 and $4,244,000 at December 31, 2019 and 2018, respectively. Fair value of mortgage servicing rights is based on market prices for comparable mortgage servicing contracts when available. In periods of market inactivity, fair value is determined using a discounted cash flow analysis, utilizing observable market data with unobservable adjustments. The analysis takes into consideration existing conditions in the secondary servicing markets, such as prices from recently executed servicing transactions and market discount rates. The adjustments made to observable data include adjustments for delinquency, and loss rates.

Note 8 - Deposits

The composition of deposits is as follows (dollars in thousands):

	Deposits at December 31		Interest Expense for the Years Ended December 31	
	2019	**2018**	**2019**	**2018**
Noninterest bearing demand deposits	$274,269	$243,853	$--	$--
NOW accounts	271,314	248,622	1,188	593
Money market and savings accounts	618,005	600,756	1,809	1,422
Time deposits greater than $250,000	56,972	33,981	846	443
Time deposits $250,000 or less	202,787	187,665	3,491	2,436
Total	$1,423,347	$1,314,877	$7,334	$4,894

Time deposits at December 31, 2019 are scheduled to mature as follows (dollars in thousands):

	$250,000 or Less	Greater than $250,000
0 to 90 days	$22,734	$3,422
91 to 365 days	57,958	19,206
1 year to 3 years	81,161	20,713
Over 3 years	40,934	13,631
Total	$202,787	$56,972

Total demand deposit overdrafts that have been reclassified to loans were $257,000 and $238,000 at December 31, 2019 and 2018, respectively.

The Company is a State of Washington Public Depository. All such public depositories are required to be members of Washington State's Public Deposit Protection Commission (PDPC). As such, when there is a loss of public funds at a member institution, those funds are in most instances insured to some extent by the federal government. To the degree a public deposit is not insured by the federal government, the PDPC will assess a claim first against the institution responsible for the loss and then against the pool of collateral held by other PDPC member institutions. Each institution is then responsible to pay its portion of the cost in proportion to the share of public funds held by that institution. The Company held $48,940,000 and $36,779,000 of public deposits as of December 31, 2019 and 2018, respectively.

Note 9 - Short-Term Borrowings

Securities sold under agreements to repurchase and line of credit advances from the Federal Home Loan Bank Des Moines (FHLB) represent short-term borrowings. At December 31, 2019 and December 31, 2018 there were no outstanding balances for credit advances.

The following is a summary of such short-term borrowings for the years ended December 31 (dollars in thousands):

	2019	**2018**
Average balance during the year	$10,407	$10,403
Average interest rate during the year	0.34%	0.95%
Maximum month end balance during the year	$14,848	$21,144

Securities sold under agreements to repurchase are secured by specific securities which, in all cases, the Company maintains control. The securities' underlying agreements to repurchase entered into by the Company are for the same securities originally sold, with a one-day maturity.

	2019	2018
Balance at December 31:		
Securities under agreements to repurchase	$10,154	$6,333
Weighted average interest rate at year end	0.34%	0.50%
Carrying value of underlying securities	$18,229	$15,607
Market value of underlying securities	$18,811	$15,370

Note 10 - Long-Term Borrowings

There were no long-term borrowings at December 31, 2019 and December 31, 2018. A long-term FHLB advance was paid in full in July 2018, including prepayment penalties of $147,000 included in interest expense. All funds borrowed from the FHLB are secured by a blanket pledge of 15% of the Company's assets.

Note 11 - Income Taxes

Income taxes are comprised of the following for the years ended December 31 (dollars in thousands):

	2019	2018
Current	$3,555	$2,480
Deferred	283	177
State income taxes	56	42
Total income taxes	$3,894	$2,699

The following is a reconciliation of the statutory income tax rate to the effective income tax rate for the years ended December 31 (dollars in thousands):

	2019		2018	
	Amount	**Percent of Pretax Income**	**Amount**	**Percent of Pretax Income**
Income tax at statutory rates	$5,731	21.0%	$5,138	21.0%
Increase resulting from:				
State income tax	45	0.2%	42	0.2%
Decrease resulting from:				
Tax-exempt income	(1,781)	(6.5)%	(1,959)	(8.0%)
Tax credits	(502)	(1.8)%	(500)	(2.0%)
Prior year adjustment	347	1.2%	--	--
Other	54	0.2%	(22)	(0.1%)
Total income tax expense	$3,894	14.3%	$2,699	11.1%

The tax effects of temporary differences that give rise to significant portions of deferred tax assets and liabilities at December 31 are as follows (dollars in thousands):

	2019	2018
Deferred Tax Assets:		
Allowance for credit losses	$2,350	$2,373
Unrealized loss on securities available for sale	--	758
Deferred compensation	566	534
Other	416	510
Total deferred tax assets	3,332	4,175
Deferred Tax Liabilities:		
Accumulated depreciation and amortization	$1,598	$1,490
Deferred loan costs	478	492
Unrealized gain on securities available for sale	1,711	--
Mortgage servicing rights	451	346
FHLB dividends	137	138
Total deferred tax liabilities	4,375	2,466
Net deferred tax (liabilities)/assets	$(1,043)	$1,709

Note 12 – Related-Party Transactions

In the ordinary course of business, the Company has transactions with directors, principal officers, their immediate families, and affiliated companies in which they are principal shareholders (commonly referred to as related parties), all of which have been, in the opinion of management, on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with outside parties.

The following table details the loan activity with related parties at December 31 (dollars in thousands):

	2019	2018
Beginning balance	$21,551	$21,490
New loans or advances during period	11,131	2,956
Repayments during period	(14,487)	(2,895)
Aggregate amount outstanding	$18,195	$21,551
Loan commitments	$19,888	$23,252
Related party deposits	$7,713	$6,573

Note 13 - Commitments and Contingencies

Credit

The Company is party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. These instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized on the consolidated balance sheets.

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for balance sheet instruments.

A summary of the Company's commitments at December 31 is as follows (dollars in thousands):

	2019	2018
Commitments to extend credit:		
Credit card lines	$33,517	$33,531
Commercial real estate, construction and development	53,713	45,473
Home equity lines of credit	47,433	45,613
Other	71,882	55,479
Total commitments to extend credit	$206,545	$180,096
Standby letters of credit	$80	$140

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company's experience has been that between approximately 10% and 25% of loan commitments are drawn upon by customers. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the customer. Associated with the unfunded commitment, the Company has established a loss reserve in the amount of $256,000 as of December 31, 2019 and 2018.

Standby Letters of Credit

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third-party. Those guarantees are primarily issued to support public and private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. In certain circumstances collateral is deemed necessary to secure the commitment.

Legal

Because of the nature of its activities, the Company is subject to various pending and threatened legal actions which arise in the ordinary course of business. In the opinion of management, liabilities arising from these claims, if any, will not have a material effect on the financial position of the Company.

Borrowing Facilities

The Company has agreements with commercial banks for lines of credit totaling $49,000,000, none of which was used at December 31, 2019. The Company has a credit line with the Federal Home Loan Bank of Des Moines for 45% of assets. As of December 31, 2019 the credit line was approximately $743,174,000 none of which was used at December 31, 2019. This line is secured with a Blanket Pledge Agreement with the Federal Home Loan Bank (Note 9).

Investments

The Company entered into a subscription agreement to purchase four units at $500,000 per unit for an interest in Homestead Equity Fund A Washington Limited Partnership (HEFA-WA) for which funding has been completed. HEFA-WA has been formed to invest in partnerships or limited liability companies, which will acquire, construct, rehabilitate, operate, and dispose of low income housing developments which are located in Washington State. The housing developments will be eligible for the federal low income housing tax credit and, in some cases, the historic rehabilitation tax credit available under the Internal Revenue Code of 1986, as amended. The Company accounts for the investment under the equity method in accordance with ASC 323, "*Investments – Equity Method and Joint Ventures,"* and a pass-through loss of $66,000 and $22,000 was recorded during 2019 and 2018, respectively. At December 31, 2019 and 2018, the Company's partnership equity was $1,000 and $51,000, respectively, and is included in other assets.

The Company entered into a subscription agreement to purchase one unit at $1,000,000 for an interest in Homestead Western Communities Fund Limited Partnership (HWCF) for which funding has been completed. HWCF has been formed to invest in partnerships or limited liability companies, which will acquire, construct, rehabilitate, operate, and dispose of low income housing developments which are located in the states of Oregon, Washington, Idaho, and California. The housing developments will be eligible for the federal low income housing tax credit and, in some cases, the historic rehabilitation tax credit available under the Internal Revenue Code of 1986, as amended. The Company accounts for the investment under the equity method in accordance with ASC 323, "*Investments – Equity Method and Joint Ventures,*" and a pass-through loss of $146,000 and $53,000 was recorded during 2019 and 2018, respectively. At December 31, 2019 and 2018, the Company's partnership equity was $30,000 and $42,000, respectively.

The Company entered into a subscription agreement to purchase five units at $1,000,000 per unit for an interest in Homestead Equity Fund X Limited Partnership (HEF-X). HEF-X has been formed to invest in partnerships or limited liability companies, which will acquire, construct, rehabilitate, operate, and dispose of low income housing developments primarily located in the states of Oregon, Washington, Idaho, and California. The housing developments will be eligible for the federal low income housing tax credit and, in some cases, the historic rehabilitation tax credit available under the Internal Revenue Code of 1986, as amended. The Company accounts for the investment under the equity method in accordance with ASC 323, "*Investments – Equity Method and Joint Ventures,*" and a pass-through loss of $608,000 and $400,000 was recorded during 2019 and 2018, respectively. At December 31, 2019 and 2018, the Company's partnership equity was $2,753,000 and $3,265,000, respectively.

The Company's remaining contractual contribution for Homestead Equity Fund X (HEF-X) of $127,000 is expected to be paid as follows (dollars in thousands):

2020	$20
2021	87
	$107

The Company entered into a subscription agreement to purchase one and a half units at $1,000,000 per unit for an interest in CREA Corporate Tax Credit Fund 72, LLC (CREA). CREA has been formed to invest in partnerships or limited liability companies, which will acquire, construct, rehabilitate, operate, and dispose of low income housing developments nationwide. The housing developments will be eligible for the federal low income housing tax credit and, in some cases, the historic rehabilitation tax credit available under the Internal Revenue Code of 1986, as amended. The Company accounts for the investment under the equity method in accordance with ASC 323, "*Investments – Equity Method and Joint Ventures,*" and a pass-through loss of $5,000 was recorded during 2019. At December 31, 2019, the Company's partnership equity was $41,000.

The Company's remaining contractual contribution for CREA Corporate Tax Credit Fund 72, LLC (CREA) of $1,454,000 is expected to be paid as follows (dollars in thousands):

2020	$397
2021	554
2022	443
Thereafter	60
	$1,454

Employment Agreements

The Company has entered into employment contracts with certain key employees, which provide for contingent payments subject to future events. These agreements are discussed in Note 15.

Derivatives

For the years ended December 31, 2019 and 2018, the fair value of the hedged loans of $172,000 and $122,000, respectively, are recorded in loans held for investment and the related swap liability is recorded in other liabilities at $172,000 and $122,000, respectively. The Company pledged a certificate of deposit due from the counterparty of the hedging instruments as collateral for the swap liability. This certificate of deposit had a balance of $100,000 and $100,000 at December 31, 2019 and 2018, respectively. The notional amounts of the interest rate swaps were $2,025,000 and $2,353,000 at December 31, 2019 and 2018, respectively. The Company recognized no loss in 2019 and 2018 which represents the ineffective portion of all fair value hedges. All components of each derivative's gain or loss are included in the assessment of hedge effectiveness, unless otherwise noted.

Note 14 – Significant Concentration of Credit Risk

Most of the Company's business activity is with customers located in the state of Washington. Investments in state and municipal securities involve government entities primarily within the state. At December 31, 2019, 6.80% of total loans outstanding were for construction related projects. Of those, 2.42% of total loans outstanding were residential developed lot loans to consumers.

Loans are generally limited, by state banking regulations, to 20% of the Company's capital to any one borrower, excluding accumulated other comprehensive income. At December 31, 2019 the Company's legal lending limit was $40,135,000. Standby letters of credit were granted primarily to commercial borrowers. The Company, as a matter of practice, generally does not extend credit to any single borrower or group of related borrowers in excess of $23,000,000. At December 31, 2019, no borrowing relationship was in excess of this limit.

Note 15 - Employee Compensation Plans

Stock Option Plan

The Company has a stock option plan under which certain key employees have been granted options to purchase shares of common stock. Under the plan, the Company may grant options of its common stock to certain key employees, of which 253,124 were available for grant at December 31, 2019. Options have an exercise price equal to the fair market value of the stock as of the date of grant. In 2018 the company adopted a vesting schedule with no vesting on grant date, and 20% vesting on each of the five subsequent anniversaries of the grant. Options have a maximum contractual term of ten years. The Black-Scholes model requires the use of assumptions noted in the following table. The dividend yield is based on the Company's actual and expected dividends paid to shareholders. The Company uses historical data to estimate the option exercise and forfeitures to estimate the expected life, which represents the period of time the options are expected to be outstanding. Expected stock price volatility is based on the Company's historical stock price, adjusted for dividends. The risk-free interest rate is based on the U.S. Treasury yield curve rate in effect at grant date with average equivalent term.

The fair value of each option was estimated on the date of grant based on the Black-Scholes option pricing model and used the following weighted average assumptions:

	2019	2018
Dividend yield	1.97%	1.79%
Expected life	6.6 years	6.2 years
Risk-free interest rate	2.20%	2.44%
Expected volatility	19.03%	22.41%

A summary of the status of the Company's stock option plan as of December 31, 2019, and changes during the years ending on those dates, is presented below:

2019	Shares	Weighted Average Exercise Price	Weighted Average Fair Value At Grant
Outstanding at beginning of year	69,450	$49.05	$9.74
Granted	19,500	57.19	9.47
Exercised	8,658	35.70	5.57
Expired	--	--	--
Outstanding at end of year	80,292	$52.46	$10.13

2019	Shares	Weighted Average Exercise Price	Weighted Average Fair Value At Grant
Vested and expected to vest	73,756	$52.46	$10.13
Options exercisable at year end	36,892	$47.20	$9.44

The following information summarizes information about stock options outstanding and exercisable at December 31, 2019:

	Options Outstanding			Options Exercisable		
Range of Exercise Prices	**Number Outstanding**	**Weighted Average Remaining Contractual Life (Years)**	**Weighted Average Exercise Price**	**Number Exercisable**	**Weighted Average Remaining Contractual Life (Years)**	**Weighted Average Exercise Price**
$ 15.00 – 25.00	2,600	1.97	$21.88	2,600	1.97	$21.88
$ 25.01 – 40.00	11,000	4.08	$33.43	11,000	4.08	$33.43
$ 40.01 – 50.00	1,000	7.09	$48.45	--	--	$--
$ 50.01 – 58.50	55,692	8.06	$55.98	22,092	7.76	$55.79
$ 58.51 – 70.00	10,000	9.46	$62.16	1,200	8.54	$70.00
Balance at December 31, 2019	80,292	7.48	$52.46	36,892	6.28	$47.20

The total intrinsic value of the options exercised during 2019 and 2018 was $207,000 and $206,000, respectively. The total intrinsic value of options outstanding was $860,000 and $486,000 in 2019 and 2018, respectively. Weighted average remaining contractual life of options vested and expected to vest is 6.43 years. Total proceeds from options exercised in 2019 and 2018 were $309,000 and $158,000 respectively. As a result of disqualifying dispositions of options exercised, the Company recorded a tax benefit of $6,000 in 2019 and $2,000 in 2018.

At December 31, 2019, unrecognized compensation expense related to unvested options totaled $360,000 and is expected to be recognized over a weighted average period of thirty-three months. During 2019, 8,750 options vested with a weighted average fair value at grant date of $10.47. During 2018, 7,700 options vested with a weighted average fair value at grant date of $11.61.

Restricted Stock Plan

Restricted stock awards are generally scheduled to vest over a 3 to 5 year period, with the unearned compensation related to restricted stock amortized to expense on a dynamic prorated straight-line basis. Unrecognized compensation cost related to unvested restricted stock awards in 2019 and 2018 totaled $53,000 and $102,000, respectively. Total expense recognized by the Company for restricted stock awards for the year ended December 31, 2019 and 2018 was $59,000 and $78,000, respectively.

The following table summarizes our restricted stock awards activity:

	Shares	Weighted Average Fair Value At Grant
Outstanding at December 31, 2017	3,870	$44.55
Granted	1,150	62.56
Vested	(1,960)	44.53
Forfeited	(80)	48.45
Outstanding at December 31, 2018	2,980	$51.41
Granted	200	$59.45
Vested	(1,580)	47.64
Forfeited	(50)	48.50
Outstanding at December 31, 2019	1,550	$56.38

Scheduled vesting for outstanding restricted stock awards as of December 31, 2019 is as follows:

	Year Ended					
	2020	**2021**	**2022**	**2023**	**2024**	**Total**
Scheduled vesting – restricted stock awards	960	350	100	100	40	1,550

Profit-Sharing Plans

The Company has a 401(k) employee benefit plan for those employees who meet eligibility requirements set forth in the plan. Eligible employees may contribute up to 100% of their compensation, subject to certain IRS limits. The Company provides a Safe Harbor match of 100% of the first 4% contributed by participants, subject to certain IRS limits. Additionally, matching contributions may be made by the Company pursuant to a prescribed formula based on the Company's achievement of certain performance goals. The Company contributed $551,000 and $490,000 in 2019 and 2018, respectively.

Incentive compensation is awarded to certain employees based on the financial performance of the Company. Cash bonuses were awarded pursuant to a formula targeted on the Company achieving certain performance goals for the years ended in 2019 and 2018, with the amounts awarded in 2020 and 2019. Amounts awarded under the plan for 2019 and 2018 were $752,000 and $536,000, respectively.

Deferred Compensation Plan

The Company entered into various deferred compensation arrangements with key employees. The agreements provide for either employee and Company matching contributions or employer only contributions. At December 31, 2019 and 2018, the Company had a recorded liability in the amount of $2,706,000 and $2,541,000 respectively. The Company contributed $161,000 and $169,000 in 2019 and 2018, which represented plan earnings or planned contributions subject to vesting criteria in accordance with the deferred compensation agreements.

Insurance

The Company provides certain health care, disability, and life insurance benefits for current employees. The cost of health care benefits for employees is recognized as expense when paid. Life insurance benefits for employees are provided through an insurance company whose premiums are based on the benefits paid during the year. The Company recognizes the cost of providing such benefits by expensing the monthly insurance premiums. For 2019 and 2018, the cost of providing health care, disability, and life insurance benefits was $1,724,000 and $1,566,000, respectively.

Note 16 - Regulatory Matters

The Company is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's consolidated financial statements. Under capital adequacy guidelines of the regulatory framework for prompt corrective action, the Company must meet specific capital adequacy guidelines that involve quantitative measures of the Company's assets, liabilities, and certain off-balance sheet items, as calculated under regulatory accounting practices. The Company's capital classification is also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company maintain minimum amounts and ratios (set forth in the table below) of Tier 1 capital to total average assets and minimum ratios of Tier 1 and total capital to risk-weighted assets.

In July 2013, the Board of Governors of the Federal Reserve System and the Federal Deposit Insurance Corporation (FDIC) approved the final rules implementing the Basel Committee on Banking Supervision's capital guidelines for U.S. banks (Basel III). Under the final rules, which became effective for the Company on January 1, 2015 and are subject to a phase-in period through January 1, 2019, minimum requirements increased for both the quantity and the quality of capital held by the Company. The rules include a new Common Equity Tier 1 capital to risk-weighted assets ratio (CET1 ratio) of 4.5% and a capital conservation buffer of 2.5% above the regulatory minimum risk-based capital requirements, which fully phased in, effectively results in a minimum CET1 ratio of 7.0%. Basel III also (i) raises the minimum ratio of Tier 1 capital to risk-weighted assets from 4.0% to 6.0% (which, with the capital conservation buffer, effectively results in a minimum Tier 1 capital to risk-weighted assets ratio of 8.5% when fully phased in); (ii) effectively results in a minimum total capital to risk-weighted assets ratio of 10.5% (with the capital conservation buffer fully phased in); and (iii) requires a minimum leverage ratio of 4.0%. Basel III also makes changes to risk weights for certain assets and off-balance sheet exposures.

As of December 31, 2019, the most recent notification from the Company's regulator categorized the Company as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Company must maintain minimum total risk-based, Tier 1 risk-based, Common Equity Tier 1, and Tier 1 leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the institution's category.

The Company's actual capital amounts and ratios are also presented in the following table (dollars in thousands). Management believes as of December 31, 2019, that the Company meets all capital requirements to which it is subject.

December 31, 2019	**Actual**		**Regulatory Minimum to be "Adequately Capitalized"**		**Basel III Minimum Adequacy with Capital Conservation Buffer**		**Regulatory Minimum to be "Well Capitalized"**	
	Capital Amount	**Ratio**	**Capital Amount**	**Ratio**	**Capital Amount**	**Ratio**	**Capital Amount**	**Ratio**
Tier 1 leverage (to average assets)	$189,232	11.66%	$64,927	4.00%	N/A	N/A	$81,159	5.00%
CET1 capital (to risk-weighted assets)	189,232	18.74%	45,439	4.50%	70,683	7.00%	65,634	6.50%
Tier 1 capital (to risk-weighted assets)	189,232	18.74%	60,585	6.00%	85,829	8.50%	80,780	8.00%
Total capital (to risk-weighted assets)	200,676	19.87%	80,780	8.00%	106,024	10.50%	100,976	10.00%

December 31, 2018	**Actual**		**Regulatory Minimum to be "Adequately Capitalized"**		**Basel III Minimum Adequacy with Capital Conservation Buffer**		**Regulatory Minimum to be "Well Capitalized"**	
	Capital Amount	**Ratio**	**Capital Amount**	**Ratio**	**Capital Amount**	**Ratio**	**Capital Amount**	**Ratio**
Tier 1 leverage (to average assets)	$180,196	11.97%	$60,215	4.00%	N/A	N/A	$75,268	5.00%
CET 1 capital (to risk-weighted assets)	180,196	17.71%	45,796	4.50%	64,878	6.38%	66,150	6.50%
Tier 1 capital (to risk-weighted assets)	180,196	17.71%	61,061	6.00%	80,143	7.88%	81,415	8.00%
Total capital (to risk-weighted assets)	191,751	18.84%	81,415	8.00%	100,497	9.88%	101,769	10.00%

Restrictions on Retained Earnings

The Company is restricted from paying dividends in an amount that would decrease regulatory capital below the minimum amounts shown above.

Note 17 - Fair Value

The Company is required to disclose the estimated fair value of financial instruments, both assets and liabilities on and off the balance sheet, for which it is practicable to estimate fair value. These fair value estimates are made at December 31, 2019 based on relevant market information and information about the financial instruments. Fair value estimates are intended to represent the price an asset could be sold at, or the price a liability could be settled for. However, given there is no active market or observable market transactions for many of the Company's financial instruments, the Company has made estimates of many of these fair values. Those estimates, which are subjective in nature, involve uncertainties and matters of significant judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimated values.

Fair Value of Financial Instruments

The carrying amounts and estimated fair value of the Company's financial instruments are as follows (dollars in thousands):

		December 31, 2019		December 31, 2018	
	Level	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets					
Cash and cash equivalents	1	$141,393	$141,393	$55,231	$55,231
Securities available for sale	1	--	--	8,347	8,347
Securities available for sale	2	542,087	542,087	431,605	431,605
Securities held to maturity	2	--	--	--	--
FHLB and PCBB stock	2	2,063	2,063	2,057	2,057
Loans held for sale	2	1,804	1,804	696	696
Loans and leases, net	3	907,353	904,733	965,320	946,903
Mortgage servicing rights	3	2,147	3,715	1,657	4,244
Accrued interest receivable	2	5,625	5,625	5,396	5,396
Bank Owned Life Insurance	2	15,447	15,447	15,010	15,010
Financial Liabilities					
Deposits	3	$1,423,347	$1,264,069	$1,314,877	$1,313,056
Borrowings	3	10,154	10,143	9,830	9,819
Interest rate swaps	2	172	172	122	122
Accrued interest payable	2	765	765	509	509

The Company assumes interest rate risk (the risk that general interest rate levels will change) as a result of its normal operations. As a result, the fair values of the Company's financial instruments will change when interest rate levels change and that change may either be favorable or unfavorable to the Company. Management attempts to match maturities of assets and liabilities to the extent believed necessary to minimize interest rate risk. However, borrowers with fixed rate obligations are less likely to prepay in a rising rate environment and more likely to prepay in a falling rate environment. Conversely, depositors who are receiving fixed rates are more likely to withdraw funds before maturity in a rising rate environment and less likely to do so in a falling rate environment. Management monitors rates and maturities of assets and liabilities, and attempts to minimize interest rate risk by adjusting terms of new loans and deposits and by investing in securities with terms that mitigate the Company's overall interest rate risk.

The following methods and assumptions were used by the Company in estimating the fair value of financial instruments:

Securities Available for Sale

Securities totaling $542,087,000 are reported at fair value utilizing Level 1 and Level 2 inputs for available for sale securities. The fair values of securities utilizing Level 2 inputs are based on quoted market prices of similar instruments and dealer quotes or determined utilizing a present value income model that utilized observable market-based inputs, as described in Note 1. The fair values were obtained from an independent pricing service and internally validated. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus, prepayment speeds, credit information, and the bond's terms and conditions, among other things.

Interest Rate Swap Derivatives

The fair values of interest rate swap derivatives are estimated by an independent third-party using a discounted cash flow method based on current incremental rates for similar types of arrangements. For purposes of potential valuation adjustments to its derivative positions, the Company evaluates the credit risk of its counterparties as well as that of the Company. Accordingly, the Company has considered factors such as the likelihood of default by the Company and its counterparties, its net exposures, and remaining contractual life, among other things, in determining if any fair value adjustments related to credit risk are required. Counterparty exposure is evaluated by considering the amounts of collateral securing the position. The Company reviews its counterparty exposure on a regular basis, and when necessary, appropriate business actions would be taken to adjust the exposures. The Company also uses this approach to estimate its own credit risk on derivative liability positions. To date, the Company has not realized any significant losses due to a counterparty's inability to pay any net uncollateralized position. The change in value of derivative assets and derivative liabilities attributable to credit risk was not significant during the reported periods.

		Fair Value Measurement Using		
December 31, 2019	**Assets/(Liabilities) Total**	**Level 1**	**Level 2**	**Level 3**
U.S. Treasury	$--	$--	$--	$--
SBA loans backed by U.S. government agency	20,230	--	20,230	--
State and municipal securities	242,121	--	242,121	--
Collateralized mortgage obligations	206,408	--	206,408	--
Mortgage-backed securities	52,839	--	52,839	--
Student loans backed by U.S. government agency	20,489	--	20,489	--
Money market mutual funds	--	--	--	--
Total securities available for sale	$542,087	$--	$542,087	$--
Interest rate swap derivatives	$(172)	$--	$(172)	$--
December 31, 2018				
U.S. Treasury	$8,347	$8,347	$--	$--
SBA loans backed by U.S. government agency	--	--	--	--
State and municipal securities	206,641	--	206,641	--
Collateralized mortgage obligations	152,547	--	152,547	--
Mortgage-backed securities	52,968	--	52,968	--
Student loans backed by U.S. government agency	19,427	--	19,427	--
Money market mutual funds	22	--	22	--
Total securities available for sale	$439,952	$8,347	$431,605	$--
Interest rate swap derivatives	$(122)	$--	$(122)	$--

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

As of December 31, 2019 and 2018, the Company did not hold any significant assets or liabilities measured at fair value on a nonrecurring basis.

Note 18 – Other Comprehensive Income

Net unrealized gains and losses on available for sale securities reported in other comprehensive income comprised of the following (dollars in thousands):

	Before Tax Amount	**Tax Effect**	**Net of Tax Amount**
Year Ended December 31, 2019			
Unrealized holding gains/(losses) arising during the year	$10,984	$(2,308)	$8,676
Reclassification adjustment for gains/(losses) realized in net income	772	(162)	610
Net unrealized gains	$11,756	$(2,470)	$9,286
Year Ended December 31, 2018			
Unrealized holding (losses)/gains arising during the year	$(6,841)	$1,438	$(5,403)
Reclassification adjustment for gains/(losses) realized in net income	94	(20)	74
Net unrealized (losses)	$(6,747)	$1,418	$(5,329)

Note 19 – Shareholders' Equity and Earnings per Common Share

Earnings per Common Share

The following table presents a reconciliation of the number of shares used in the calculation of basic and diluted earnings per common share (dollars in thousands, except share and per share amounts):

	2019	2018
Distributed earnings allocated to common stock	$5,357	$11,111
Undistributed earnings allocated to common stock	18,039	10,677
Net earnings allocated to common stock	$23,396	$21,788
Weighted average common shares outstanding - Basic	4,102,266	4,115,537
Dilutive effect of options outstanding	9,860	16,057
Weighted average common shares outstanding - Diluted	4,112,126	4,131,594
Earnings per common share – Basic	$5.70	$5.29
Earnings per common share – Diluted	$5.69	$5.27
"Out of the money" stock options	2,000	26,350

Stock Repurchase Plans

From time to time, the Company's board of directors has authorized stock repurchase plans. In general, stock repurchase plans allow the Company to proactively manage its capital position and return excess capital to shareholders. Shares purchased under such plans also provide the Company with shares of common stock necessary to satisfy obligations related to stock compensation awards.

On October 1, 2019, the Company announced a share repurchase plan allowing the Company to repurchase up to 500,000 shares. Under the repurchase plan, the Company offered to purchase 500,000 shares via a tender offer at a price of $62.00 per share. The repurchase plan did not require the Company to repurchase a specific number of shares and the tender offer expired on November 15, 2019.

In 2019, the Company announced it had repurchased 159,805 shares at a cost of $9,908,000. No shares were repurchased in 2018.

Note 20 – Revenue from Contracts with Customers

All of the Company's revenue from contracts with customers in the scope of ASC 606 is recognized in noninterest income. The following table presents the Company's sources of noninterest income for the years ended December 31, 2019 and 2018 (dollars in thousands). Items outside of the scope of ASC 606 are noted as such.

	2019	2018
Noninterest income:		
Service charges on deposit accounts	$1,914	$1,886
Mortgage banking operations (a)	3,390	2,230
Net (loss) on sales of securities available for sale (a)	772	(94)
Brokerage commissions	882	515
Insurance commissions and fees	4,579	4,110
Net Interchange income	1,549	1,380
BOLI cash value (a)	437	428
Remaining other (a)	1,258	1,482
Total noninterest income	$14,781	$11,937

(a) Not within scope of ASC 606

Deposit Service Charges

The Company earns fees from its deposit customers for account maintenance, transaction-based and overdraft services. Account maintenance fees consist primarily of account fees and analyzed account fees charged on deposit accounts on a monthly basis. The performance obligation is satisfied and the fees are recognized on a monthly basis as the service period is completed. Transaction-based fees on deposit accounts are charged to deposit customers for specific services provided to the customer, such as non-sufficient funds fees, overdraft fees, and wire fees. The performance obligation is completed as the transaction occurs and the fees are recognized at the time each specific service is provided to the customer.

Debit and Credit Card Interchange Fee Income and Expenses

Debit and credit interchange income represent fees earned when a card issued by the Company is used. The Company earns interchange fees from debit cardholder transactions through the *Visa* payment network. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to the cardholder. The performance obligation is satisfied and the fees are earned when the cost of the transaction is charged to the cardholders' card. Certain expenses directly associated with the credit and debit card are recorded on a net basis with the interchange income.

Brokerage Revenue

Brokerage fees consist of fees earned from advisory asset management, trade execution and administrative fees from investments. Advisory asset management fees are variable, since they are based on the underlying portfolio value, which is subject to market conditions and asset flows. Advisory asset management fees are recognized quarterly and are based on the portfolio values at the end of each quarter. Brokerage accounts are charged commissions at the time of a transaction and the commission schedule is based upon the type of security and quantity. The amount of revenue earned is determined by the value and type of each instrument sold and is recognized at the time the policy or contract is written. In addition, revenues are earned from selling insurance and annuity policies.

Insurance Revenue

Insurance revenue consists of commissions and fees from the sales of insurance policies and related insurance services. Insurance commission income is recognized at the later of the effective date of the insurance policy or billing date, net of adjustments. Such adjustments are recorded when the amount can be reasonably estimated, which is generally in the period in which they occur. Commission revenues related to installment billings are recognized on the latter of effective or invoiced date. Contingent commissions are estimated and accrued relative to the recognition of corresponding commissions. Management determines a policy cancellation reserve based upon historical cancellation experience adjusted for any known circumstances. Subsequent commission adjustments were recognized upon receipt of notification from insurance companies concerning such adjustments.

Prior to adoption of ASC 606, commission revenues were recognized over the life of the policies. Upon adoption utilizing the modified retrospective approach, a cumulative adjustment to retained earnings in the amount of $1,283,000 was recorded.

Note 21 – Subsequent Events

The Company performed an evaluation of subsequent events through March 17, 2020, the date these financial statements were available to be issued.

On January 21, 2020, the Company’s Board of Directors approved a dividend of $0.70 per share, payable and paid on February 10, 2020, to shareholders of record as of January 31, 2020.

On February 18, 2020, the Company’s Board of Directors approved a dividend of $2.00 per share, payable and paid on March 9, 2020, to shareholders of record as of February 28, 2020.

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Directors and Officers

Board of Directors
Lyman Boyd, Chairman
Brian Nelson, Past Chairman
Kris Loomis, CPA
Bill Dronen
Greg Oakes
John Doyle
Keith Wiggins
Mike Neff, Advisory Board

Administrative Officers
Greg Oakes, President & Chief Executive Officer
Mike Lundstrom, EVP & Chief Financial Officer
Connie Fritz, EVP & Chief Retail Banking Officer
Jenny Pulver, EVP & Chief Retail Banking Officer
Steve Vradenburg, EVP & Chief Lending Officer
Sue Ozburn, EVP & Chief Information Officer

Mitchell, Reed & Schmitten Insurance Board of Directors
Greg Oakes, Chairman
Lori Reed
Lyman Boyd
Jim Gibbons
Laura Mounter
Brent Schmitten
Marc Heminger

Finance
DeAnne Williams, VP & Controller

Credit Administration
Ann Rankin, AVP & Credit Operations Supervisor
Kyle Bruggman, AVP & Assistant Credit Administrator

Compliance
Deidra Anderson, VP & Compliance Officer

Retail Operations and Personnel
Jennifer West, VP & Human Resource Director
Jeff Burton, VP & Retail Operations Officer
Christy Tomlinson, AVP & HR Generalist

Contract Purchasing and Equipment Leasing
Chris Ewer, SVP & Indirect Lending
Jeff Miller, VP & Dealer Finance Manager
Jessica Steinburg, Financial Services Supervisor
Elliott McLeod, Loan Officer
Thomas Christopherson, Loan Officer

Electronic Banking and Card Services
Sharon Low, VP & Electronic Banking Manager
Nicole Ivarsen, Credit Card Services Manager

Municipal Banking
Thomas Brown, VP & Municipal Finance Manager

Information Technology
Terri Howard, AVP& Information Systems Operations Officer

Cashmere Valley Mortgage
Shirley Reyes, SVP & Mortgage Servicing Manager
Kyle Lewis, SVP & Mortgage Production Manager
Mireya Sanchez, Mortgage Operations Officer

Mitchell Reed & Schmitten Insurance
Brent Schmitten, President & Chief Operations Officer

Cashmere Valley Wealth Management
Timothy Meyers, Division Director

Customer Support Center
Sheryl Rivera, Customer Support Center Supervisor

Cashmere Branch
Josh Price, AVP & Manager
Jana Flores, Retail Operations Officer

Maple Street, Wenatchee Branch
Steve Lee, SVP & Manager
Mike Kintner, VP & Commercial Lender
Kelly Walker, Retail Operations Officer

Leavenworth Branch
Darrin Rylaarsdam, SVP & Manager
Shawna Alexander, VP & Retail Operations Officer
Gary Waunch, AVP & Loan Officer

East Wenatchee Branch
Alex Cruz, VP & Manager
Edith Amante, Retail Operations Officer
Kellen Parton, Loan Officer

Chelan Street, Wenatchee Branch
Tina Hampton, Retail Operations Officer

Easy Street, Wenatchee Branch
Claudia De Robles, VP & Manager
Elizabeth Mejia, Retail Operations Officer

Ellensburg Branch
Pam Wilson, VP & Manager
Miriam Nation, Retail Operations Officer

Cle Elum Branch
Kimberly Bonjorni, VP & Manager
Caren Reed, Retail Operations Officer

Lake Chelan Branch
Russ Jones, VP & Manager
Griselda Hernandez, Retail Operations Officer

Summitview Avenue, Yakima Branch
Maria Fabara, Retail Operations Officer

Yakima Avenue, Yakima Branch
Taylor Stormo, SVP & Manager
Brittanie Vaughn, Retail Operations Officer

Directory

Website Address
www.cashmerevalleybank.com

Administrative Offices
117 Aplets Way, Cashmere
509-782-2624

Cashmere Branch
117 Aplets Way, Cashmere
509-782-1501

Maple Street, Wenatchee Branch
1100 Maple Street, Wenatchee
509-662-1644

Leavenworth Branch
980 Highway 2, Leavenworth
509-548-5231

East Wenatchee Branch
199 Valley Mall Parkway, East Wenatchee
509-884-0622

Chelan Street, Wenatchee Branch
124 South Chelan Avenue, Wenatchee
509-662-6633

Easy Street, Wenatchee Branch
127 Easy Street, Wenatchee
509-662-5071

Ellensburg Branch
101 West University Way, Ellensburg
509-925-3000

Cle Elum Branch
803 West 1st Street, Cle Elum
509-674-2033

Lake Chelan Branch
329 East Woodin Avenue, Chelan
509-682-7162

Summitview Avenue, Yakima Branch
5800 Summitview Avenue, Yakima
509-457-7895

Yakima Avenue, Yakima Branch
127 West Yakima Avenue, Yakima
509-902-1352

Cashmere Valley Wealth Management
124 East Penny Road, Suite 102, Wenatchee
509-664-7168

Cashmere Valley Mortgage
127 Easy Street, Wenatchee
509-662-7722

Electronic Banking
124 East Penny Road, Suite 103, Wenatchee
509-664-5454

Valley Contract Servicing
124 East Penny Road, Suite 205, Wenatchee
509-664-5452

Card Services
124 East Penny Road, Suite 106, Wenatchee
Credit Cards 509-664-5455
ATM/Debit Cards 509-664-5453

Dealer Financing
124 East Penny Road, Suite 201, Wenatchee
509-664-3820

Equipment Finance Solutions
124 East Penny Road, Suite 202, Wenatchee
509-665-1088

Customer Support Center
124 East Penny Road, Wenatchee
509-665-1070

Municipal Banking
1400 112th Avenue SE, Suite 100, Bellevue
425-688-3935

Mitchell, Reed & Schmitten Insurance:

Wenatchee Office
124 East Penny Road Suite 101, Wenatchee
509-665-0500

Gellatly Insurance Services
22 North Chelan Avenue, Wenatchee
509-662-2151

Cashmere Office
117 Aplets Way, Cashmere
509-782-2751

Ellensburg Office
101 West University Way, Ellensburg
509-962-0902

Yakima Office
5800 Summitview Avenue, Yakima
509-454-5156

Elliott Insurance Service
127 West Yakima Avenue, Suite 201, Yakima
509-248-7711

Leavenworth Office
980 Highway 2, Leavenworth
509-548-6050

Cle Elum Office
803 West 1st Street, Cle Elum
509-674-4433

Exhibit C
Press Release

FOR IMMEDIATE RELEASE

CONTACT: Greg Oakes, CEO
(509) 782-2092
Mike Lundstrom, CFO
(509) 782-5495

Cashmere Valley Bank Commences Self Tender Offer to
Repurchase up to 340,000 of its Common Stock

CASHMERE, WA, APRIL 13, 2021 – Cashmere Valley Bank (OTCQX: CSHX) (the “Bank”), announced today that it has commenced a tender offer to purchase up to 340,000 shares of its common stock at a price per share of $70.00. The tender offer is expected to expire on May 13, 2021, unless extended. Tenders of shares must be made prior to the expiration of the tender offer and may be withdrawn at any time prior to that time. As of March 31, 2021, the Bank had 3,972,304 shares of Common Stock issued and outstanding of 10,000,000 total shares authorized. The 340,000 Shares represent approximately 8.6% of the total number of Shares issued and outstanding as of March 31, 2021.

The tender offer is not conditioned upon any minimum number of shares being tendered; however, the tender offer is subject to a number of other terms and conditions. The Bank expects to fund the purchase of shares in the tender offer with cash on hand.

None of the Bank or its board of directors is making any recommendations to shareholders as to whether to tender or refrain from tendering their shares into the tender offer. Shareholders must decide how many shares they will tender, if any. The Bank’s directors and executive officers have advised that they do not intend to tender any of their shares in the tender offer.

The Bank believes that the tender offer will significantly enhance shareholder value.

The Offer to Purchase, a letter of transmittal and related documents will be mailed to shareholders of record and also will be made available for distribution to beneficial owners of the Bank’s stock. For questions and information, please call the Bank at (509) 782-5495.

About Cashmere Valley Bank

Cashmere Valley Bank was established September 24, 1932 and now has 12 retail offices located in Chelan, Douglas, Kittitas and Yakima Counties. The Bank also maintains a municipal lending office in King County. The Bank provides business and personal banking, commercial lending, insurance services through its wholly owned subsidiary, Mitchell, Reed & Schmitten insurance, investment services, mortgage services, equipment lease financing, auto and marine dealer financing and municipal lending.

Certain Information Regarding the Tender Offer

The information in this press release describing the Bank’s tender offer is for informational purposes only and does not constitute an offer to buy or the solicitation of an offer to sell shares of the Bank’s common stock in the tender offer. The tender offer is being made only pursuant to the Offer to Purchase and the related materials that the Bank is distributing to its shareholders, as they may be amended or supplemented. Shareholders should read such Offer to Purchase and related materials carefully and in their entirety because they contain important information, including the various terms and conditions of the tender offer. Shareholders or investors who have questions or need assistance or may obtain a copy of these documents, without charge, by calling the Bank at (509) 782-5495. Shareholders are urged to carefully read all of these materials prior to making any decision with respect to the tender offer.

Forward Looking Statements

This press release contains "forward-looking statements". Forward-looking statements contain words such as "anticipate," "believe," "can," "would," "should," "could," "may," "predict," "seek," "potential," "will," "estimate," "target," "plan," "project," "continuing," "ongoing," "expect," "intend" or similar expressions that relate to the Bank's strategy, plans or intentions. Forward-looking statements involve certain important risks, uncertainties and other factors, any of which could cause actual results to differ materially from those in such statements. Such factors include, without limitation, the "Risk Factors" referenced in the Offer to Purchase and the following additional factors: effects of the ongoing COVID-19 pandemic; ability to execute our business strategy; business and economic conditions; economic, market, operational, liquidity, credit and interest rate risks associated with the Bank's business; effects of any changes in trade, monetary and fiscal policies and laws; changes imposed by regulatory agencies to increase capital standards; effects of inflation as well as interest rate, securities market and monetary supply fluctuations; changes in consumer spending, borrowings and savings habits; the Bank's ability to identify potential candidates for, consummate, integrate and realize operating efficiencies from, acquisitions; the Bank's ability to achieve organic loan and deposit growth and the composition of such growth; changes in sources and uses of funds; increased competition in the financial services industry; the effect of changes in accounting policies and practices; the share price of the Bank's stock; the Bank's ability to realize deferred tax assets or the need for a valuation allowance; continued consolidation in the financial services industry; ability to maintain or increase market share and control expenses; costs and effects of changes in laws and regulations and of other legal and regulatory developments; technological changes; the timely development and acceptance of new products and services; the Bank's continued ability to attract and maintain qualified personnel; ability to implement or improve operational management and other internal risk controls and processes and reporting system and procedures; changes in estimates of future loan reserve requirements based upon the periodic review thereof under relevant regulatory and accounting requirements; widespread natural and other disasters, dislocations, political instability, acts of war or terrorist activities, cyberattacks or international hostilities; impact of reputational risk; and success at managing the risks involved in the foregoing items. The Bank can give no assurance that any goal or plan or expectation set forth in forward-looking statements can be achieved and readers are cautioned not to place undue reliance on such statements. The forward-looking statements are made as of the date of this press release, and the Bank does not intend, and assumes no obligation, to update any forward-looking statement to reflect events or circumstances after the date on which the statement is made or to reflect the occurrence of unanticipated events or circumstances, except as required by applicable law.

SOURCE: Cashmere Valley Bank